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# COMMERCIAL POLICY IN THE CANADIAN ECONOMY

BY

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# PREFACE

THE DEPENDENCY of expansion and stability in the Canadian economy upon external markets and sources of supply makes foreign trade and tariff policy an issue of the first magnitude. This volume is an historical and analytical account of events in this field and their industrial and commercial consequences, from the British conquest of 1763 to the outbreak of World War II in 1939. The author's original intention was to confine the study to the influence of government policy on the establishment and growth in Canada of a selected group of tariff-protected industries. The lack of an objective and comprehensive account of the development of Canadian external economic policy, however, suggested the need for the present study. The main emphasis is on the customs tariff as the primary instrument of trade policy. However, the use of the broader term, commercial policy, in the title indicates that such complementary techniques as subsidies, shipping regulations, and exchange and currency matters, have also been considered.

The book embraces one hundred and eighty years of Canadian economic development. Major emphasis is placed on the period of nationhood from 1867 to 1939, but the record of commercial policy during the colonial period has been included, however, not only for its bearing on industrial beginnings in what were to become the provinces of the Dominion, but also because subsequent developments and political cleavages were largely shaped by preconfederation debate and legislative and executive action. The lines of the tariff battle were drawn, and the fundamental issues raised in British North America in the 1840's and 1850's, even while rival economic groups in the mother country and the external relations of the Empire, particularly with the United States, were still the main determinants of colonial and imperial trade regulations. By 1859 a modern protective tariff had been evolved in the then province of Canada with the assistance of infant in-

dustry arguments, pressure groups, embryonic nationalism, and the other equipage of later day protectionists.

During the formative period of Dominion commercial policy in the two decades following Confederation, tariff makers attempted to anticipate the majority view of an electorate attracted both by the example of the United States' experience with protection and the British precept of free trade. When the period of compromise and political inconsistency had run its course and the protectionist viewpoint had triumphed in 1879, tariff for industrial expansion supplanted tariff for revenue as a constant in Canadian economic affairs. During most of the last sixty years freer trade preachments and protectionist practices have characterized both major political parties. In the minutae of the tariff controversy articulate group interest, often of minor political importance, has frequently obtained a hearing and at times achieved remarkable legislative results. Signal success has been achieved by such groups in initiating new quirks in administrative procedures, and competitive imports have been excluded by arbitrary customs valuations, "dumping" penalties and the like. Generally, the most skilful advocates of these measures have been manufacturing groups, though the success of specialized agriculturists, such as fruit and vegetable producers, in winning protection for their products makes the popular conception of Jim protectionist as an opulent manufacturer in contrast to honest John free trader, an impecunious farmer, rather inaccurate.

Compared with the plethora of trade control devices developed by the leading commercial powers between World Wars I and II, the course taken by Canada has been along traditional lines. Apart from a widening degree of rate discrimination favoring Empire countries before and after the Ottawa conference and an uninhibited resort to tariff administration as a weapon of trade control during the depths of the depression, little experimentation with less orthodox trade control methods occurred. Except for the depreciation of Canadian exchange in terms of the United States currency following the departure of sterling from gold in

1931, no exchange manipulation, clearing and payment agreements, or the like have been deliberately employed in Canada.

A principal focus of this study, aside from the historical record of tariff changes, is the significance of commercial policy on the development, stability, and economic behavior of a selected group of manufacturing industries. This emphasis upon the steel, farm machinery, textile, and automobile industries has reduced, though not eliminated, the possibility for generalization regarding such broad questions as the influence of the tariff on national income, investment, and consumption. Inasmuch as the economic health and the development of the nation is a composite of many factors in addition to external commercial policy, it is thought the approach followed here has practical merit. However, it is hoped that subsequent research, particularly as to the net influence on investment of protective duties, will yield conclusive results.

The contributions to this volume of the author's wife, Dr. Alice Morrisey McDiarmid of the Department of State, have been more those of a co-author than of the usual wifely assistant. Chapter V, the Maritimes and Confederation, was written by her as was a large portion of Chapter II, the Struggle for a Colonial Commercial Policy. In addition her criticism and research aid have contributed to the work throughout.

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Any errors or deficiencies may only, of course, be attributed to the author.

O. J. McDiarmid

*June 12, 1945*

## CONTENTS

TABLES

COMMERCIAL POLICY
IN THE CANADIAN ECONOMY

# CHAPTER I

## COMMERCIAL POLICY AND THE CANADIAN ECONOMY

SCRUTINY of Canadian commercial policy offers inducements in keeping with the complexity of the task. The significance of tariff policy to a national economy is in direct relation to the proportion of the country's economic activity that arises out of foreign trade and in inverse ratio to the size and diversity of the nation's domestic industry. On both counts foreign commercial policy has been of great importance in the national economic life of Canada as compared with larger and more self-contained states. More than 30 per cent of the national income of Canada in prosperous years has been directly owing to foreign trade, and, at least up until the first World War, Canadian industry was neither large nor well diversified.

On grounds of theoretical interest, too, the Canadian experience in employing the customs tariff as a determinant of the type and diversity of industrial development commands attention. As a young economy in which industrialization and settlement were simultaneous processes, the so-called "infant industry" or, if you will, the "historical economies of large-scale production" argument had a satisfactory testing ground. The fact that Canadian markets as well as manufacturing centres are contiguous to the great industrial regions of the United States and accessible to those of Britain and Europe by ocean transport has brought the so-called "dumping" and the "cheap labour" arguments much into the foreground in Canadian tariff debate. In recent decades the need for a favourable balance of payments on international account to service external financial obligations incurred during the great expansion period of the past has seemed to present another argument for import control and regulation. Finally, the use of a high tariff and supplementary devices as investment and

employment stimulants and as means of sheltering the national economy from world-wide forces of deflation and economic chaos has been tested.

The central question in the tariff issue in Canada is the relation between the over-all amount and incidence of burden and the total amount and distribution of benefits whether from protection or expenditure of tariff receipts. Quantitative economic analysis may direct its examination of this question to the observation of terms of trade, measurement of the utilization of productive resources as reflected in industrial growth, and the evaluation of the amount and distribution of national dividend. The dynamic milieu in which tariff policy has operated in Canada makes it impossible to attribute changes in these basic factors to tariff-induced causes alone. However, the study of certain representative industries and the consideration of more general economic variables in later chapters of this volume are not without some conclusive results.

Certain observations can be made without elaborate theoretical or historical analysis. From the fiscal standpoint, the tariff was a principal means by which the burden of overhead costs incidental to the construction of great public and publicly supported transportation systems and other federal expenditures in support of Confederation was allocated to the users of consumer goods and capital equipment. As Dr. Innis has observed, "In combination with government ownership, the tariff served as an effective weapon by which the returns accruing from the application of mature industrial technique to virgin natural resources were retained by Canada." [1] This is not to understate the protective quality of the tariff in later decades nor to underestimate the lack of equity in its burdens. The shading of fiscal objectives into incidental and ultimately avowed protectionist motives was a marked evolution of later colonial and early Dominion tariff-making.

Inasmuch as the burden of the tariff, whether fiscal or protective, has fallen in part on the crisis-vulnerable export indus-

[1] Harold A. Innis, *Problems of Staple Production in Canada* (Toronto: Ryerson, 1933), p. 104.

tries, especially in the Maritime and western provinces, it has reduced opportunities for marginal development and diminished net revenues available for meeting overhead costs of individual producers. Thus the rate of bankruptcy has been increased in depression. The quantitative balancing of gain to exporters from government-supported transport against the inequities of a tariff-protected domestic price structure is a task not within the scope of this volume.[2] However, the pervasiveness of the problem will be brought out frequently in subsequent discussions.

As in all democratic states, the great decisions that have shaped Canadian commercial policy have resulted from the pressures of articulate economic and political interests and have not been the logical products of any general economic principle. The classic case for free trade has been ably stated in parliamentary and other political debate, but the greatest freedom of expression has been reserved for the loyal Opposition. Some of the practical political and economic factors that have influenced the evolution of the country's trade policy will be reviewed in this introduction.

Throughout a good part of the colonial period which ended with Confederation, commercial policy was influenced by absentee officialdom as well as by resident legislative bodies. After 1790 in Canada, and earlier in the Maritime colonies, elected legislators exercised ill-defined tariff-making functions. But until 1846, when Britain discarded protection at home and mercantilism in the Empire, the Colonial Office administrator, acting through the colonial governor and council, was the final arbiter of colonial commercial policy. Indeed as late as 1877 a representative of the mother country in the Dominion claimed the privilege of vetoing differential duties adopted at Ottawa, and only at the imperial conference of 1911 was the constitutional position of the Dominion, as a claimant to autonomous treaty-making powers with for-

[2] See Vincent W. Bladen, *Introduction to Political Economy* (Toronto: University of Toronto Press, 1943), p. 120. ". . . while the price of wheat fell about 66 per cent between 1929 and 1933, the average fall in the prices of a large sample of the 'things farmers buy' was only 25 per cent. . . ." This is not to imply Professor Bladen attributes all rigidity in consumer goods and capital equipment prices to the tariff.

eign governments, finally established. The protectionist leanings of Canadian tariff makers, when trade control became anathema to the free traders of the Manchester school, were undoubtedly responsible for the reluctance of the Colonial Office to keep its hands off the Canadian tariff even after tariff autonomy had been ostensibly granted in 1846.

Under the French and later the British mercantile systems, the colonies were valued as complements to the metropolitan economy of the mother country; this was particularly true after the American Revolution had destroyed the old British Empire. The raw materials of the North American forests fitted too well the pattern of integrated economic empire to allow any loosening of imperial monopoly that commercial policy and the Navigation Acts could maintain. Not until free trade economics and colonial discontent combined to bring about the repeal of differential duties in 1846, and of the Navigation Acts three years later, did the colonies obtain a fair measure of tariff autonomy. Long before this, however, a brisk though spasmodic trade had grown up with diversified New England and the important centres of staple production in the West Indies. Jay's Treaty in 1796 opened the inland boundary; and, with the westward expansion of the United States through regions south of the Great Lakes after 1800, Canadian-American commercial relations—both legitimate and otherwise—became important and exerted pressure within the Empire against exclusive trade policy. The voices raised in Upper Canada for political reform in the 1820's and 1830's, notably that of William Lyon Mackenzie, also demanded freedom from the monopoly-breeding restrictions and controls of the mercantile system.[3]

The union of the Canadas in 1841 and the Confederation of a quarter century later brought uniform tariffs over wider areas. Both were in response to expanding internal economy based on export trade and capital imports. The leading commercial interests of the period were those of the merchants and shipowners

[3] Leo Warshaw, "The Economic Forces Leading to a Centralized Federalism in Canada," in *Essays in Political Economy*, Harold A. Innis, ed. (Toronto: University of Toronto Press, 1938), p. 226.

whose operations depended on the removal of internal trade barriers and a commercial policy that would channelize a large proportion of United States, as well as Canadian, exports and imports via the St. Lawrence. This group were not free traders in the doctrinaire sense and were firm in the mercantile tradition as far as using commercial policy and the Navigation Acts to their own advantage was concerned. Nevertheless, they stood for an expanding economy that would include all of the British North American colonies and establish close trade ties with the export industries of the northern states.

The vested interests which had supported the old imperial system that received its *coup de grâce* in 1846 and 1849 were in part British and in part colonial. The Canadian merchant class vented its indignation at the elimination of its preferred position in the Annexation Manifesto of 1850. Already, however, new economic interests, indigenous to Canada, were appearing to play the dominant role in shaping the Canadian commercial policy of the future. The demand, first for "incidental," and later for full fledged tariff protection for home industry, took its place as the leading issue in Canadian politics. Those who see in the protective tariff an instrument of monopoly wielded only by manufacturing interests might note that one of the first applications of the protective principle in Canada was embodied in the agricultural tariff of 1843. Not until fifteen years later were the manufacturers able to enact a measure that gave substantial protection to farm machinery, textiles, sugar refining, and other "infant" industries. Pressure groups representative of manufacturing interests have played the most important part in supporting the protective features of Canadian commercial policy, but, when the vital decision was taken in 1878 to repudiate the free trade principle for an avowedly protective tariff, agricultural as well as industrial support was gained for a time by proponents of the new policy. As a matter of fact, in Canada, as in other countries of continental dimensions, the tariff issue has been drawn upon regional rather than strictly industrial lines. The Ontario farmer has usually believed that his economic interests lay parallel to those of the urban manufacturer

and industrial worker upon whom his market largely depended rather than with the export-conscious western provinces or with the more commercially minded Maritimes.

In Canada the tariff has enjoyed unusually great survival power as the main subject of cleavage between political groups. It has been the issue of paramount importance in at least four, of the half dozen or so, crucial election campaigns since Confederation. In 1878, 1896, 1911, and perhaps in 1930, other issues were of secondary importance. Even in 1874, 1921, and 1935, the tariff issue in some form was prominently injected into the campaigns. It is true, however, that the need for an issue in political warfare has given exaggerated emphasis to the depth of partisan differences on the issue. Since the closing years of the nineteenth century, differences in doctrine between Liberal and Conservative or in practice when in office have not been very pronounced, certainly not reminiscent of the struggles between the commercial interests and protectionist farmers of the 1830's. The party of Laurier and King has stood for moderate protection for consumer goods and for loopholes in the tariff for the capital equipment and raw materials required by domestic industry and agriculture. The Conservatives, for their part, have been protagonists for a well-rounded system of protection for all branches of industry which have appeared capable of "economical and efficient" production in Canada. Depressions have stiffened the exclusionist wing of the Conservative Party sponsored by manufacturing groups, and its standard bearers have been unsuccessful in gaining support in Western Canada and the Maritimes during periods of falling prices and agricultural distress. Liberals, on the other hand, have lost political support in Central Canada and gained in the East and West during such periods.

Neither major party has made much use of extra-tariff controls of international trade, such as manipulation of exchange rates, quota devices, and currency clearing agreements that were popular abroad in the 1930's. Canada's principal contribution to the technique of trade restrictions has been in giving the executive and administrative branches of government a wide measure of

control over the effective rate of duties through artificial valuation of goods for duty purposes. This technique reached its highest development during the Conservative administration of 1930 to 1935.

Most of the political heat that has brought about the important changes in the Canadian tariff has been generated during economic depressions. The commercial depression of the 1870's had as its consequence the defeat of the "revenue tariff" party and the emergence of the National Policy. With the rise of the West to political importance the regional factor in the tariff controversy became more important in 1894, when agricultural depression forced a modification of the National Policy at the hands of its original exponents, and subsequently elected a Liberal administration pledged to tariff reform. Similarly the collapse of the farm prosperity in 1920–21 brought the Liberals to power and created a new block in federal politics, the Progressive Party, that was the driving anti-protectionist force during the next decade. The collapse of 1930 and the continuance of depression through 1935 brought about significant changes in commercial policy as well as political control.

During the colonial period in Canada and the Maritimes the fiscal function of the tariff overshadowed, but did not entirely obscure, its operation as a protector of local industry and as a regulator of commercial intercourse with the United States and the West Indies. Its role as the mainstay of colonial finances was largely the result of its political appeal and the inapplicability of alternative methods of taxation. Direct taxation except for levies on the sale and use of alienated lands was inexpedient, and, in any case, as Galt argued in 1859, would have proved inadequate from the fiscal standpoint. The difficulty of determining taxable income when most investment of a private nature was highly speculative, and when most of the population was engaged in self-sufficient agriculture, placed the burden of supporting the government and servicing the public debt on import duties. Thus, although protection was inherent in the 20 per cent duties of 1859, it was not until twenty years later that it became the

avowed objective of the tariff makers. Not until the Great War did the Dominion develop in the personal income tax any effective substitute for the import duty as a revenue producer. By reducing the level of disposable net income in extractive industries the tariff perhaps contributed to its own survival as a mainstay of federal finance.

In the following chapters the evolution of colonial and Dominion tariff history is considered as the end product of regional and group forces in the political life of the country. The repercussions of policy on external commercial intercourse and internal industrial growth are given parallel consideration.

# CHAPTER II

## THE STRUGGLE FOR A COLONIAL COMMERCIAL POLICY

THE PROBLEM of fitting Canada into the economic structure of the mercantilist empires of France and England dominated the evolution of colonial commercial policy until a system of imperial preferences supplanted rigid mercantilist restrictions in the 1820's. Before the American Revolution the place of Quebec in imperial trade organization was relatively simple. Furs, her principal export staple, had a definite place in mercantilist economy when the southern members of the thirteen colonies and the West Indies were the real sheet anchors of British colonial policy. The American Revolution suddenly projected Canada into a place in the system that she was not equipped to fill, namely, granary and commercial complement to the West Indies. Therefore, when imperial leaders tried to ignore the necessity for readjusting a trading system which had lost its principal support, they were defeated by the lack of exportable surpluses in British North America and by the economic necessities of the West Indies. As the Colonial Office and the Board of Trade slowly modified their policies, and as the United States forced her way back into imperial commerce, Canada grew in value as a supplier, a market, and an *entrepôt*. When the internal economies of the North American colonies became more diversified further modifications became necessary in imperial policy. Fortunately for the future of the Empire, British leadership was not now as obtuse, nor colonial development as dynamic, as in the thirteen colonies before 1775.

Throughout the French period, which will be very briefly reviewed here, mercantilism was of course supreme. Canada was a military, trading, and religious outpost of the mother country, unable to provide even for the maintenance of civil government from customs duties on its rigourously controlled import trade.

Under the paternalistic French colonial administration, the economic welfare of the St. Lawrence colony was subsidiary to French metropolitan economy and to the political, military, and religious ambitions of French imperialists. To harmonize the economic life of the colony with that of the metropolis unsuccessful attempts were made at fixing stable and uniform prices for Canadian exports, notably beaver, and other furs. Diversification of colonial industry was hampered by mercantilist regulations. External trade was strictly channelized; even that with the mother country was under the surveillance of companies endowed by the Crown with monopoly power. Only the activities of the smugglers enjoyed a measure of freedom, since French administration was inadequate to cope with the colony's extensive and ill-defined frontiers, which bordered on the wilderness and were accessible to the English colonies and to the sea. The trade of the St. Lawrence merchants was too closely bound up with this illicit commerce for effective control. Revenues, inadequate even for the small expenses of local administration, came from customs duties on liquors, wines, and other luxury imports, export taxes on the fur trade, and feudal dues. Duties were levied on wine, rum, brandy, and a 3 per cent tax on the import and export of dry goods.

When English mercantilism replaced that of France in 1763 the opportunities for legitimate trade increased. British sea power now fought on the side of Canadian commerce, and the Atlantic colonies, the British West Indies, and England herself offered new opportunities for trade expansion. The energy of the English merchant in the first decade of British rule overcame some of the handicaps of antagonism from the French colonists and the bankrupt state of the colony. Old economic ties were broken and new ones forged. The change in political administration, however, caused little transformation in the manner of financial policy and general economic control.

Before the American Revolution, goods entered the colony legally from Great Britain or the British colonies if carried in British or colonial vessels, but direct trade with any foreign country or commerce within the Empire in foreign ships was contrary

to the cornerstone of British mercantilism, the Navigation Acts. Since Britain commanded the sea, and no foreign territory now remotely approached the Canadian hinterland, smuggling did not loom large in the years before the Revolution. In winter, when the St. Lawrence was closed, manufactured goods reached the colony through Albany, and in the few years of surplus, small amounts of wheat, flour, and the like found their way out by the inland route. Furs, still the basic staple, went direct by sea to England.

Sources of revenue under the early English regime closely followed the French pattern. They were neither adequate, popular with the citizenry, nor stable in amount and application. The small, impoverished population of some 65,000 or 70,000 could support only the lightest taxation on the necessities of life. But Britain was disinclined to alienate the feudal seigneurs or the church by imposing a land tax, though the feudal dues remained. The government set up in 1763, consisting of Governor Murray and an appointed council, continued to levy the French taxes and dues on "luxury" imports, supplemented by excises on spirits.[1] The revenues were small, however, since the feudal dues were collected inefficiently and the main revenue-producer among the customs duties had been the tax on French wines, which were excluded after the conquest.[2] In 1764, an imperial act (4 Geo. III, c. 15, Imp.) levied duties on indigo, coffee, wine, silks, calicoes, cambrics, French lawns, pimento, foreign molasses, and British and foreign sugar. In 1766 these duties on foreign molasses, British sugar, coffee, pimento, and textiles were repealed (6 Geo. III, c. 52, Imp.) but the tax on wines remained, and new duties were

[1] A receiver-general and a collector of customs were appointed by the Crown directly. Funds derived from customs duties were paid to the receiver-general and were accounted for to the commissioners of His Majesty's Treasury. After the expenses of collection were deducted, the proceeds were appropriated to the expenses of the colony on the warrant of the governor. See Adam Shortt and Arthur G. Doughty, editors, *Canada and Its Provinces* (23 vols., Toronto: Edinburgh University Press, 1914–1917), IV, 425.

[2] Helen Taft Manning, *British Colonial Government after the American Revolution, 1782–1820* (New Haven: Yale University Press, 1933), pp. 200–201.

imposed on molasses, syrup, coffee, and pimento.[3] Even with these additional sources of revenue the colony was usually unable to meet its civil list. Deficits were met by grants from the fixed imperial revenue or charged to the British Treasury as "army extraordinaries." Later, in 1769, the 3 per cent French duty on foreign trade in dry goods was remitted. Three farthings per pound continued on all tobacco and snuff imported. Preference was given to brandy and other spirits manufactured in Great Britain and imported in British ships.[4]

Since the British, like the French, valued Canada for its strategic position and its fur trade, a great bid for French Canadian loyalty was made in the Quebec Act. At the same time the need of revenue and the unpopularity of the French and British duties furnished the impetus for the passage of the accompanying financial measure, the Quebec Revenue Act of 1774 (14 Geo. III, c. 88, Imp.). Though the act was envisaged as a revenue measure, its mercantilist character can hardly be overstressed. To encourage the shipping and manufacturing interests of the United Kingdom, duties were framed to stimulate the circular or triangular commerce of Great Britain with her North American and West Indian possessions, especially with respect to the liquor trade. Rum, entering Canada from the West Indian possessions directly, paid 6*d.* per gallon, from other British American possessions 9*d.*, and 1*s.* when from possessions of foreign powers in the western hemisphere. On the other hand, rum from the British Isles, to which British West Indies spirits had free access, entered Canada at 1*d.* a gallon, enjoying a 5*d.* preference over direct shipments from the Indies. Molasses, from which rum was produced, paid 3*d.* when brought in ships of the United Kingdom or of Canada, and 6*d.* when transported in other Empire ships. The result was

[3] The act of 1764 in so far as it applied to wines and that of 1766 to molasses and pimento remained in force until 1842.

[4] H. A. Innis, *Select Documents in Canadian Economic History, 1497–1783* (Toronto: University of Toronto Press, 1929), p. 565, from *Quebec Gazette*, February 9, 1769.

that rum, the *sine qua non* of the fur trade, was cheaper when imported from Great Britain than when directly imported from the Indies, and British owned ships were given an advantage in the molasses trade. Since the act made no distinction between Empire and foreign molasses so long as it came in British ships, and since foreign molasses from the French and Dutch islands was cheaper, a Canadian distilling industry grew up using foreign molasses.

In general, the Quebec Revenue Act was a failure as a solution to Canada's trade and fiscal problems. The special preferences accorded British rum engendered a mercantilist conflict, after the American Revolution, over American entrance to the West Indies and the retention of monopoly by British and colonial ships in that area. Despite the lower duties applied to molasses brought in British ships there was a still cheaper way to obtain this basic requirement of the distillery industry and of the fur trade, namely, by smuggling it in over the inland route from the United States. The keen competition that existed in the fur trade north and south of the border after 1783 made Canadians favourably disposed towards this illicit traffic, and many even favoured opening the Indies trade with Canada to American ships in order to obtain cheaper molasses. Besides paving the way for future trade disputes, which were to continue for the next half century, the act was also disappointing as a revenue-producer. In 1776, despite the new duties, the gap between revenue and civil expenditure in Canada was about £10,000. In the sixteen years from the inauguration of the act in 1775 to October 1791, a total of only £94,762 was collected under it, about 15 per cent of which was cost of collection.[5]

The second phase of British rule in Canada may be said to date from the revolt of the thirteen colonies. We shall first examine some of the immediate consequences of that event to colonial commerce. The American Revolution stimulated some aspects of Canadian trade and stifled others. Between 1771 and 1775 Can-

[5] Manning, *British Colonial Government,* pp. 201 and 308; Shortt and Doughty, *Canada and Its Provinces,* IV, 497.

ada had exported some flour and lumber to the British West Indies and the Maritimes. The war checked this development as the British fleet lacked decisive power in North American waters. Furthermore, the war, by making Canada dependent on her own resources, aggravated the problem of food supply so that embargoes were laid on the export of provisions.[6] But since the Revolution cut off British supplies of naval stores and lumber from New England, Virginia, and the Baltic, Canadian turpentine, potash, and timber came into the breach, and the forest industries prospered. The specialized St. Lawrence colony based on furs had not been highly prized as a market for British manufactures, but after 1770 it began to find a sphere of usefulness in the British colonial system. Canada was not, therefore, given to the United States in 1783 as American negotiators proposed.

The Revolution, however, had dealt a staggering blow to the practical operation of mercantilism. First, it called forth the Declaratory Act of 1778 (18 Geo. III, c. 12, Imp.), a gesture of appeasement by which the British bound themselves to levy duties only for the regulation of trade and to leave the revenues collected to the colonies where they were obtained. Since Canada had no autonomous fiscal authority, this legislation had little immediate meaning to her, but, nonetheless, it represented a notable concession of principle. Secondly, the Revolution undermined the Quebec Revenue Act which penalized direct trade between Canada and the West Indies in favour of the mother country. If Canada were to take the place of the United States as the source of supplies of the West Indies, modification of this statute was clearly essential. This, however, was not easily achieved. Finally, the Revolution led to the breakdown of the time-honoured practice of excluding foreigners from the colonial trade. Within four years after the close of the Revolution American goods could legally enter Canada by land or inland navigation, and in two years more some of them were received in Britain on the same basis as colonial goods. In short, Britain was forced to seek a new basis for

[6] Gerald S. Graham, *British Policy and Canada, 1774–1791, a Study in 18th Century Trade Policy* (London: Longmans, Green, 1930), chapter iii.

empire, one into which slowly developing Canada would fit. Such a system emerged haltingly, however, as the diehards in Britain did not quickly forsake their absolute principles.

Despite the hopes of Pitt and Shelburne, the Peace of Paris not only recognized the independence of the United States, but placed that country outside the British mercantile system and the legal trading sphere of the St. Lawrence colony. While American ships were allowed to trade with the United Kingdom, they were excluded from British colonies on the mainland and in the West Indies. This triumph of mercantilist principle did not endure, for both Quebec and the West Indies were often short of food, and both wished to pursue their commercial interests even when these conflicted with imperial policy.

The exclusionists in Parliament had framed their policy in the belief that Quebec and the Maritime Provinces could replace New England in the triangular trade with the West Indies. This trade had been regulated by the Quebec Revenue Act which, it will be recalled, gave rum imported via the British Isles a preference. While the act had satisfied mercantilist principles by stimulating the merchant marine, it made rum more expensive in Canada than in the United States.[7] Quebec and the Maritimes could not supply the provisions and lumber the West Indies needed, American ships had to be admitted to the trade on a year-to-year basis, and the West Indies had to pay for American products with rum. In 1788, in an attempt to concede a little to the West Indies planters and the North American colonists without impairing imperial policy, Parliament passed an act (28 Geo. III, c. 39, Imp.) lifting the heavy duty (6*d.* a gallon) on rum brought as return cargo by Canadian vessels which had taken lumber or provisions to the West Indies. But the inability of Quebec to supply the West Indies, and the high value of rum as compared with bulky cargoes

[7] If American ships could have been kept out of the West Indies as the exclusionists planned, the British could have better controlled the price at which they sold rum in the United States though American access to foreign molasses would have made such control difficult in any case. But Canadians would not have been at a disadvantage in obtaining rum for the fur trade.

of provisions and lumber, meant that this measure afforded little relief.[8]

The development of Canada as an inland *entrepôt* helped to offset her failure to become the granary of the West Indies. The steps by which the *entrepôt* came about were marked by a series of retreats from the exclusionist philosophy: retreats due to the same factors which compelled concessions on the West Indies front. In the years immediately following the Revolution, when trade by sea was expressly forbidden, the legality of trade by land across the frontier remained doubtful. Along the Great Lakes, where settlers were few and the British occupied posts in American territory, the frontier was ignored and the Indian fur trade south of the Lakes was encouraged. The only section where direct exchange between white settlers could occur was along the Vermont frontier. From that erstwhile colony there could come foodstuffs in case of crop failure in Quebec. Here, too, there was hope of adding another province to the commercial, and perhaps the political, empire of the St. Lawrence. Vermont's remoteness from the main channels of trade in the United States, and its border quarrels with its neighbours, made the hope far from improbable. The story of Vermont's flirtation with the British need not be recounted.[9] The state was at first rebuffed because of British fear of smuggling and later encouraged because of expansionist ambitions and the Royal Navy's desire for oak, of which Vermont's supply was superior to Quebec's.[10] To test the welding properties of commercial intercourse, Lord Dorchester in 1787 permitted the opening of trade by Lake Champlain and the Richelieu, the first legally sanctioned trade between Canada and the United States.[11] The free importation of lumber, naval stores,

[8] See Gerald S. Graham, *Sea Power and British North America, 1783–1820, a Study in British Colonial Policy* (Cambridge: Harvard University Press, 1941), pp. 123–129.

[9] See W. A. Mackintosh, "Canada and Vermont; a Study in Historical Geography," *Canadian Historical Review,* VIII (1927), 9–30.

[10] Graham, *British Policy,* chapters vii and viii.

[11] Public Archives of Canada, hereinafter cited as P.A.C., C.O. 42, vol. 12, pp. 159–162.

hemp, flax, grain, provisions, and all products grown in neighbouring states was allowed. Pot and pearl ashes and tobacco were also admitted despite the opposition of Canadian makers of potash (27 Geo. III, c. 8, Quebec Ordinance).[12] In explaining his action, Dorchester declared that he did not believe the imperial prohibition on trade by sea had been intended to prohibit all trade with the United States, especially Vermont. He also suggested that goods which could legally go to England in United States vessels should be allowed to enter Canada for re-export.[13] Though it took a little time for the latter suggestion to bear fruit, Dorchester's action in opening the border was ratified by the Board of Trade. In 1788 the inland trade was put on a regular basis by a colonial ordinance (28 Geo. III, c. 1, Quebec Ordinance) which attempted to promote a two-way trade by allowing the export to the United States of Canadian produce, except furs, and of British goods imported into Canada by sea. The free importation of enumerated articles including lumber, naval stores, foodstuffs, livestock, or anything else grown in the United States was permitted, but the entry of rum, spirits, and non-enumerated articles, namely, manufactured products, and West Indian goods, was prohibited. In 1790 pig and bar iron were added to the enumerated list (30 Geo. III, c. 2, Quebec Ordinance). Dorchester's order and the ordinance of 1788 broke down the policy of exclusion in the inland trade and marked the beginning of local regulations in this field.

Imperial authority, however, maintained the mercantilist philosophy in trade by sea. Immediately after the war, all sea-borne trade between Quebec and the United States was prohibited, first by order-in-council, then by statute (28 Geo. III, c. 6, Imp.). But again human distress prevailed over doctrinaire policy. Crop failure compelled the grudging admission of foreign provisions by sea in 1789 (29 Geo. III, c. 16, Imp.). In 1790 the Governor was empowered to admit provisions by sea from the United States

[12] For complaints, see P.A.C., Series Q, vol. 27, pt. 2, p. 992, Encl. in Dorchester to Sydney, June 13, 1787. Tobacco was later forbidden by 35 Geo. III, c. 6, L.C.

[13] P.A.C., Series Q, vol. 28, p. 4, Dorchester to Sydney, June 13, 1787.

whenever an emergency arose (30 Geo. III, c. 8, Imp.). Such a famine trade, however, could not develop a satisfactory basis for commercial intercourse. Much more important was an act of the same year allowing some Vermont goods imported by the Richelieu route to enter Britain on the same basis as colonial products (30 Geo. III, c. 29, Imp.). Thus British officials took cognizance of the growing importance to Canada of trade with the United States.

The Constitutional Act of 1791 (31 Geo. III, c. 31, Imp.), which divided Quebec into two weak provinces, provided that trade between the provinces should be free and that regulatory authority over commerce should be exercised by the imperial government, without defining the power, if any, of the local governments in this sphere. But both provinces depended upon customs receipts for the major portion of their revenues and began at once to levy duties independent of imperial statutes. After 1791, therefore, the Canadas began a dual customs system; regulations applying to colonial trade were written into British statutes, and local duties were adopted by the colonial legislatures.[14] These of course could be denied approval by British authorities, but this was infrequently done although tariff bills were sometimes reserved by the governor until the advice of the Colonial Office could be obtained. As stipulated in the Declaratory Act, the revenue obtained from both imperial and provincial statutes was allocated by the colonial legislatures.[15]

Since the spasmodic trade by inland navigation was vital to Canada and ideal for smuggling the only trade upon which regular taxation was feasible was that by sea to Quebec, the single seaport of entry for both provinces. The division of the provinces, there-

[14] In 1791, the imperial government offered to repeal the Quebec Revenue duties if the provinces would impose equivalent taxation. Though Lower Canada made the requisite provision for the civil list (L.C. 39 Geo. III, c. 9), the bargain was never carried through. (See Graham, *Sea Power*, pp. 126–127.)

[15] Taxes collected under 25 Chas. II, c. 7; 6 Geo. II, c. 13; 4 Geo. III, c. 15; and 6 Geo. III, c. 52, had been remitted directly to England. See P A.C., Series Q, vol. 152, pt. 2, p. 179.

fore, raised the thorny problem of allocating customs duties collected at Quebec on the joint commerce of the two colonies. The simple solution would have been a free port at Quebec or transit in bond to the upper province. The expense of maintaining customs houses along the uncertain inter-provincial boundary made this impractical, however, especially as free trade between the provinces had been established by the Constitutional Act. Since Upper Canada's revenue was at stake, the first parliament of the new province raised the issue at its second session in 1793 by demanding the right to impose duties at Quebec on imports of wines bound up the St. Lawrence beyond the inter-provincial boundary (33 Geo. III, c. 10, U.C.). As such an arrangement was not administratively desirable the provinces appointed commissioners to decide on a proper division of the customs. In 1795 the commissioners decided on a division of all duties on goods entering at Quebec, one-eighth to be paid to Upper Canada (35 Geo. III, c. 3, L.C.). This arrangement lasted until 1797.[16] When a conference in that year failed to produce a satisfactory division, the provinces set up a customs house at Coteau du lac to ascertain the amount of goods passing up the St. Lawrence from Quebec to Upper Canada. The duties, which continued to be collected at Quebec, were divided according to the Coteau du lac inspector's report from January 1797 to May 1, 1816. These duties were confined to sea-borne trade as the commodities against which they were levied did not come from the United States.

Geographical necessity placed the control of duties on sea-borne trade, after 1791, in the hands of Lower Canada though it was stipulated that the duties imposed should not go into effect until Upper Canada had acquiesced in them. In 1793 the colonies took their first step as tariff makers by levying duties upon wines: 4*d.* per gallon on madeira, 2*d.* on other wines (33 Geo. III, c. 10, U.C., and 33 Geo. III, c. 8, L.C.). Two years later, at Dorchester's request, the assembly of Lower Canada laid a series of duties upon

[16] P.A.C., Series Q, vol. 329, p. 351, Maitland Memoir on Commercial Relations of Upper and Lower Canada, August 20, 1821.

wines, liquors, sugar, coffee, tobacco, salt, and playing cards (35 Geo. III, c. 9, L.C.). Brandy, spirits, and rum, already taxed under the Quebec Revenue Act, were subjected to an additional duty of 3*d.* per gallon unless they came from the United Kingdom or Ireland. Imports of loaf sugar were taxed 1*d.*, and coffee and leaf tobacco 2*d.* per pound with a drawback of 1½*d.* for leaf tobacco if it was subsequently manufactured in the province. In what was perhaps the first employment of the drawback to encourage domestitc industry in Canada a full refund of the 4*d.* salt tax was paid if the salt was used in the fishing industry, with lesser refunds if it was employed in meat or fish packing. The main purpose of these duties was, of course, to pay salaries and other regular expenses.

Just as the imperial government, acting through the governor, found it easier to have local revenue needs met by local legislation, it also found it desirable to have the local legislatures regulate the inland trade. Dorchester's initiative of 1787, approved by the Committee of the Privy Council for Trade, had already foreshadowed a policy for the inland trade apart from the Navigation Acts. In 1796 Jay's Treaty gave legal recognition to the principle of providing a distinct trade policy appropriate to local conditions. It provided that non-prohibited products might cross the border without being subject to any discriminatory duties. Both provinces then vested in the Governor power to suspend the earlier ordinances governing trade with the United States and to make temporary provision concerning it until more permanent and joint arrangements could be completed (36 Geo. III, c. 7, L.C., 37 Geo. III, c. 16, U.C.). In 1797 an inter-provincial council recommended that Upper Canada levy duties on the inland trade equal to those levied by Lower Canada, but Upper Canada refused to accept the bargain as long as the United States collected no duties along the frontier. In 1801, however, when the Americans enforced their tariff, Upper Canada bound itself to levy the same duties on goods from the United States as were charged on similar goods under British or Lower Canada Acts (41 Geo. III, c. 5, U.C.). In 1801 Lower Canada levied a duty of 4*d.* per pound

on snuff and 3*d*. on all other forms of manufactured tobacco (41 Geo. III, c. 14, L.C.).

These colonial imposts were permanent enactments lasting until 1839 in most cases and until 1842 in the case of the 1793 levy on wines. They were additional to the imperial duties collected in the provinces which consisted, at this time, of the duties of 1764 and 1766 on wines, molasses, and pimento, and Quebec Revenue Act duties.

In 1805 to finance a gaol building program, Lower Canada increased its import duties on tea, spirits, wine, molasses, and syrup (45 Geo. III, c. 13, L.C.). The act was to run six years but was renewed and lasted till 1813 (51 Geo. III, c. 1, L.C.). Upper Canada delayed adopting the "gaol" duties for two years but enforced them from 1807 to 1813. Over £50,000 was collected from the provincial duties in Lower Canada in 1809, much in excess of revenue requirements, and not till 1813 were additional duties necessary.

Despite imperial and provincial statutes much illegal trade continued. Smuggling was the rule rather than the exception along the land frontier, especially that of Upper Canada. Neither the province nor the United States had adequate machinery or will to enforce customs collections. British troops were stationed south of the Lakes till 1796, and the United States did not establish collectors' stations there till 1799. Upper Canada erected no customs houses along most of the frontier until 1800, though at Kingston, Montreal, and Quebec it collected duties on goods and vessels entering those ports. The Lakes were in fact great free-trading centres; the balance of trade was generally in favour of Upper Canada. Liquor, general merchandise, and salt, mainly of British origin, flowed southwestward across the border. In 1797 the Lake trade amounted to £100,000.[17] Except for periods of poor harvest when Upper Canada needed flour and provisions the trade was largely *entrepôt* with British goods passing through Canada, or American goods sent into Canada for re-export. In addition, West Indies goods were smuggled in from the United

[17] P.A.C., Series Q, vol. 286, p. 119, May 18, 1799.

States for Canadian consumption. This arrangement suited the majority of people in Upper Canada fairly well. The colonial agriculturalist, the labourer, and the small business men favoured the maximum freedom of trade with the United States in the necessities of life. The larger merchants in general, however, would have confined this commerce to the transit trade or to goods that would directly increase Canadian exports to Britain.

The renewal of warfare in Europe after the Peace of Amiens gave the British and St. Lawrence merchants ground for complaint at the laxness of trade regulation, since the United States gained control of much of the trade to North America in rum, tea, and other East Indies products. By smuggling these across the border the Americans reduced the markets of the Quebec merchants in the hinterland. Commercial relations with the United States steadily deteriorated in the first decade of the nineteenth century. Demands for retaliatory action against American merchants were also motivated by the 20 per cent tariff that the United States levied on Canadian exports to that country.[18] The method of collection of duties by the United States handicapped Canada's position as an *entrepôt* because valuation for duty for re-exports of British goods southward was based upon the prices of the goods in Montreal rather than their British prices. Advantage therefore lay in the direct commerce between the United States and Britain.

In 1812, after repeated memoranda from Canadian merchants, Britain prohibited the entry into Canada of all goods from the United States which were not the products of that country (52 Geo. III, c. 55, Imp.).[19] The Colonial Office suggested that local duties might be levied on American imports to bring the Canadian tariff up to the level imposed by the United States. The provision of more adequate trade control and administration, without which all duties were ineffective, was left in abeyance, however, because of the imminence of war.

[18] P.A.C., Series G, vol. 56, p. 5, April 6, 1811.

[19] P.A.C., Series G, vol. 5, p. 52, April 13, 1812.

The export trade of the British North American colonies from 1807 until the close of the Napoleonic period consisted of a spasmodic, but sometimes flourishing, inland trade with the United States especially from Upper Canada, plus an expanding market in the mother country for Canadian timber, furs, wheat, flour, and naval stores. The Embargo of 1807 and the Non-intercourse Act of 1809, by eliminating American competition in the British market, were most advantageous to Canadian commercial interests. Some migration of American capital and labour to Canada occurred during this period of economic distress in New York and other Atlantic coastal cities.[20]

Napoleon's Continental System, which produced in 1808 a veritable panic in Britain over the stoppage of the Baltic timber trade, redounded to the benefit of Canada. In the interests of her navy, Britain wished to have a reliable source of ship's timber to which her naval power would provide access, independent of the danger of Continental embargoes.[21] From this time forward the imperial timber trade was lent powerful aid by British ship-owners who occupied a strong bargaining position with the government of the day. To encourage colonial timber, which had been admitted to Britain freely since 1721, oak timber eight inches square was charged 3*s*. 6*d*. when imported from British North America, but when brought from foreign sources in British ships it was charged 19*s*. 6*d*., and in non-British ships £1 6*d*. (49 Geo. III, c. 98, Imp.). Timber duties were doubled in 1810 (50 Geo. III, c. 77, Imp.) and continued to rise throughout the war. They were increased 25 per cent in 1813 (53 Geo. III, c. 33, Imp.) when foreign timber was charged £3 5*s*. per load while colonial timber paid only a nominal duty.[22] From 1815 to 1820 timber fit for naval purposes

[20] C. K. Ganong, "Reaction of Canada to United States Tariff Policy" (University of Wisconsin doctoral thesis, unpublished, 1929).

[21] P.A.C., Series Q, vol. 126, December 6, 1813, and *ibid.*, vol. 141, pp. 61–65, May 14, 1817.

[22] A. R. M. Lower, "Lumbering in Eastern Canada," 2 vols. (unpublished Harvard doctoral thesis, 1928), I, 155.

was imported from British North America free of duty (55 Geo. III, c. 86, Imp.). On other timber the colossal preference of 1813 was retained in full until 1821, and in part until the preferential system was swept away after 1846.[23]

Commercial opportunity provided by the war had its counterpart in strain upon the colonial revenue. The conflict not only increased expenses but diminished revenue since the legal, though not the smugglers', trade with the United States was cut off. In 1813, for the first time, a general ad valorem tariff was placed on all imports, Empire and foreign, not specifically dutiable or on the free list, and in addition various specific duties were increased (53 Geo. III, cc. 1 and 11, L.C.). The general duty of 2½ per cent, chiefly on British imports, continued for many years to supply the local legislatures with most of their revenues.[24] Such a duty, locally applied, was a feature of the Canadian tariff as long as the dual (imperial and colonial) system remained and was used by both the Canadas. In 1813, also, duties on wines and spirits from outside the Empire were increased from the 3*d.* levels of 1805 to 1*s.* per gallon. Leaf tobacco bore 3*d.* and manufactured tobacco 6*d.* per pound, an increase from the 3*d.* of 1801. Salt meats, fish products, flour, wheat, peas, furs, and skins were placed on the free list.

Duties on spirits were adjusted back to the 1795 levels in 1815; i.e., reduced from 1*s.* to 3*d.* per gallon (55 Geo. III, cc. 2 and 3, L.C.). Levies on tea ranged from 2*d.* on the cheaper to 6*d.* on the more expensive brands. The 2½ per cent ad valorem rate was, however, the backbone of Lower Canada's revenues and of her remittances to the upper province. The general tariff act of 1813

[23] In 1821 a duty of a little over 10*s.* was imposed on colonial timber while foreign timber in British ships paid £2 15*s.* (1 and 2 Geo. IV, c. 37, Imp.) United States timber coming through Quebec was admitted on the same basis as colonial by this act.

[24] Two and one-half per cent additional duty was levied upon goods imported by persons of less than six months' residence in the colony. This was without economic or political justification and was removed in 1815.

and the modifications of 1815 were made permanent by the Canada Trade Act and remained in force until 1839.[25]

Following the Treaty of Ghent in 1815 the future of trade with the United States was uncertain. Jay's Treaty lapsed with the war and no general principle replaced it; regulations remained chaotic for several years. The problem posed at the end of the Revolution was again presented: should the principles of mercantilist trade restrictions be reimposed, or should the facts of economic geography be recognized and trade liberalized? A conflict of opinion between economic interests in the colony was evident, colonial merchants favouring a resumption of pre-war trade while members of the Governor's Council, the nucleus of the Family Compact of two decades later, stood for trade restriction. Undoubtedly the seeds of dissatisfaction planted at this time were not negligible factors in the political and economic conflicts of the 1830's. British merchants wished to exclude American goods from Canada to a degree reminiscent of the decade after the Peace of Paris. The Colonial Office supported the merchants and wished to keep the border closed. British official opinion held that the import of American provisions on a permanent basis would serve only to prolong the state of dependency of the colonies. Far better, they argued, to develop a thoroughly self-sufficient economy capable of defending itself and not be dependent upon a potential enemy for the necessities of life.[26]

The clash of interests was intensified by the British corn law of 1815 (55 Geo. III, c. 26, Imp.). This measure allowed colonial wheat to enter Britain when the British price was above 67*s*. per quarter while foreign wheat was excluded till the British price

[25] In the early tariffs, customs collectors were instructed to value commodities for duty purposes on the basis of original invoice price. After 1815 importer's oath was allowed as a substitute for invoice price if the latter was unavailable. The government retained the right to purchase the goods at the importer's attested price plus 10 per cent as a check upon fraudulent declarations. (For a table of duties including these, see next chapter.)

[26] P.A.C., Series Q, vol. 126, p. 71, July 5, 1817, and *ibid.*, vol. 154, p. 78, March 15, 1819.

went to 80*s*.[27] Under these circumstances the admission of American wheat and flour into the Canadas to replace colonial wheat exported to Great Britain was favoured by the Quebec merchants, and the question of the admission of American wheat and flour became the most vital problem in trade policy toward the United States. The food needs of the provinces in times of crop failure and the trend of colonial opinion in favour of freer relations with the United States could not be disregarded by colonial governors faced with the same circumstances as those which confronted Dorchester in the 1780's.

Despite the obvious need for imperial legislation clarifying trade relations with the United States the home government continued to leave the problem to the local authorities who floundered about without any guiding principle for the next three years. Each year from 1815 to 1819 saw a major change of policy by the two provinces. In 1815 the legislature of Lower Canada vested in the governor authority to regulate trade with the United States for one year (55 Geo. III, c. 11, L.C.). Thereupon, Drummond instituted the radical policy of admitting all United States goods, charging a high tariff on manufactured products. When the provincial grant of authority lapsed in 1816, the governor's advisers took the view that trade must be carried on according to the early ordinances which had been suspended after 1796 when Jay's Treaty was ratified. These ordinances, of which Dorchester's of 1788 was the most important, limited trade to enumerated articles, chiefly raw products, produced in the United States. Trade was, therefore, severely restricted when Drummond put the old regulations into effect in the spring of 1816.[28] Wheat, flour, and provisions, however, were permitted temporary free entry because of an acute food shortage. Drummond's desire to admit flour and provisions for re-export displeased the Colonial Office

[27] In 1815 and 1816 prices in Britain reached the import point for colonial wheat. Later, however, the fall in prices and the uncertainty of the price level during the long period while wheat was in transit across the Atlantic discouraged trade.

[28] P.A.C., Series Q, vol. 136, p. 127.

because it opened the door to an indirect trade between the United States and the West Indies via Canada.[29] His successor, Sherbrooke, was, however, granted discretion to admit foodstuffs in time of need and immediately permitted the free entry of grain, flour, livestock, and provisions for six months. Meanwhile canal projects in New York State offered increased competition to the St. Lawrence route, and the St. Lawrence merchants petitioned for freer trade. In 1817, therefore, the legislature of Lower Canada repealed the restrictive ordinances revived the year before. In their place, the legislature authorized the admission of all products which had been admitted at any time in the past. Grain and flour were specifically mentioned. This act was reserved by Sherbrooke and disallowed by the Colonial Office. In 1818 the Lower Canada legislature invoked the formula of 1797 and empowered the governor to suspend the ordinances pertaining to the border trade (58 Geo. III, c. 4, L.C.).

In 1819, at last, came a provincial enactment definitely regulating commerce with the United States (59 Geo. III, c. 4, L.C.). It allowed certain articles from the United States to enter free of duty, prescribed the duty on certain other articles on which no other or greater duties were to be levied "by reason of any law now in force in the province," and empowered the governor to prohibit the importation of flour, salt beef, or salt pork except under bond for export. Gold and silver coins, naval stores, timber, wheat, and other grains, provisions and livestock, pig iron, cotton, wool, and a few partially manufactured products were placed on the free list. Leather was subject to a 5 per cent duty, and specific duties amounting to 1 or 2 per cent were levied on tobacco, spirits of turpentine, and hops. Goods not mentioned were excluded when shipped via the United States; this meant that West Indian products could not come in from the United States. This act bridged the period until trade between the Canadas and the United States was put on a firm foundation by the Canada Trade Act, discussed below. Later amendments lowered the duties on tobacco products and raised those on leather (2 Geo. IV, c. 1 and 4 Geo. IV, c. 10,

[29] P.A.C., Series G, vol. 8, pp. 113–118.

L.C.). The act of 1819 expired May 1, 1826. In 1818 the Canadas imported from Britain and the West Indies dutiable goods worth about £780,000, yielding £22,000 in revenue. Imports from the United States in the same year were nearly equal to those from the Empire but, being largely on the free list, produced a bare £6,000 in revenue.[30]

From 1815 to 1819 Upper Canada followed much the same zigzag course. No enactment was passed in 1815 because the legislature disbanded before the end of the war was in sight. But in 1816 the lieutenant-governor was vested with power to regulate trade with the United States by land and inland navigation provided that he did not prohibit the free entry of wheat, flour, provisions, lumber, pot and pearl ashes, furs, and skins (56 Geo. III, c. 28, U.C.). Lieutenant-Governor Gore then proclaimed a temporary schedule of duties on imports from the United States, including for the first time a substantial group of manufactured goods.[31] These duties resembled those of Lower Canada in 1815. Ad valorem duties of 35 per cent were placed on carriages, wood manufactures, and paper. Thirty per cent was levied on manufactures of glass, 25 per cent on cotton goods, and 22 per cent on tools, hinges, and other hardware. Specific duties of 7*s.* 6*d.* per hundredweight were applied to hemp and to hoop and sheet iron. The general rate (not-otherwise-provided-for list) was 30 per cent. Wheat and other grains, cattle, and provisions were admitted free. The original feature of the Upper Canada act was a 12 per cent additional duty applied if the goods entered in foreign ships. This strikingly modern schedule of duties was apparently meant to replace both provincial and imperial duties and represented about the level of British duties of the day.

When these duties expired the following year, the old ordinances became operative, but they had never been paid much heed in Upper Canada. For years the Navigation Acts and im-

[30] P.A.C., Series Q, vol. 152, pt. 1, p. 185 and pt. 2, p. 183. While the 2½ per cent colonial duty produced most of the revenue, the specific duties on wines and spirits remained of importance.

[31] P.A.C., Series Q, vol. 324, p. 198.

perial tariffs had meant nothing on the Great Lakes, and along the Detroit and Niagara frontiers goods of American and foreign origin came in practically unchecked. In 1818 Upper Canada passed an act to regulate trade with the United States (59 Geo. III, c. 1, U.C.), which removed most of the restrictions of the old ordinances.

At the same time that the provinces were trying to settle their commercial policy toward the United States they were also engaged in a family quarrel over the apportionment of the tariff revenues.

The 1797 settlement lasted until 1816. In 1817 Lower Canada made a lump sum grant to Upper Canada for its share of the customs revenues and the next year agreed to apportion one-fifth of the revenues to Upper Canada (58 Geo. III, c. 4, L.C.). But in 1819 a constitutional struggle between the Legislative Council and the Assembly of Lower Canada blocked the passage of the usual bill appointing commissioners to treat with Upper Canada over the division of the customs revenues.[32] The legislature of Upper Canada forthwith repealed the statute of 1801 binding it to impose the same duties on goods from United States as Lower Canada and embarked on a career of tariff making in which it changed the rates three times within the next three years (59 Geo. III, 2d sess., c. 1, 1 Geo. IV, c. 1, and 2 Geo. IV, c. 1, U.C.). In all these acts specific duties were levied on ale and beer, cordage, playing cards, candles, leather, nails, salt, spirits, and snuff from the United States. Flour, beef, and pork were added to the specifically dutiable list in 1820 instead of being liable to prohibition as in Lower Canada. Each of these acts contained a free list and levied a general ad valorem rate on a general list of goods, rising from 5 per cent in 1819 to 10 per cent in 1820 and 1821, with a 20 per cent rate for iron castings and tin ware in 1821. All the acts provided that flour and timber might be admitted free for export, and all levied tonnage duties on American vessels. Still enamoured of tariff making the Upper Canada legislature again

[32] P.A.C., Series Q, vol. 329, p. 351, Memoir on Commercial Relations of Upper and Lower Canada, August 20, 1821.

established new duties in 1824 but fixed these for a five-year term (4 Geo. IV, 4th sess., c. 1, U.C.). In 1829 all these duties lapsed in favour of the imperial duties of 1826, except a tax on salt from the United States which remained in force until the union of the provinces (11 Geo. IV, c. 21, U.C.). Upper Canada betrayed early protectionist tendencies in 1821 when it petitioned for an imperial duty on American wheat entering Lower Canada when Canadian wheat was excluded from the United Kingdom by the corn law.[33]

By 1820 the mercantilist tradition in colonial affairs was giving way to a commercial policy which envisaged Canada as the *entrepôt* of commerce, and the protection which was to follow was already foreshadowed. The necessities of Canada and a vision of the commercial empire of the St. Lawrence were to work major changes in imperial commercial policy and to pave the way for the final disappearance of mercantilism which was already undermined in England itself by 1815.

By the eve of the Canada Trade Act of 1822 Canada had evolved from a military outpost to a commercially valuable colony. All the potentialities envisaged for it at the time of the American Revolution had not been realized; particularly, it had failed to become an important source of supplies for the West Indies. On the other hand, it had become a producer of timber and some agricultural supplies for the mother country. Most important, perhaps, was its growth as an *entrepôt;* from very limited beginnings as a transmitter of British manufactures to border communities, it was developing into a channel of trade from the American West to the outside world. The commercial interest thus established was destined to become of increasing concern in the next period.

In the years from 1791 to 1821 Canada had developed a local tariff which took into account both its revenue needs and the problems of the *entrepôt* trade. From simple levies on luxuries its

[33] See Robert L. Jones, "Canadian Agricultural Tariff of 1843," *Canadian Journal of Economics and Political Science,* VII (1941), 530, citing *Journal of Legislative Assembly of Upper Canada,* 1821.

tariff had grown into a comprehensive measure affecting most items of trade except natural products. The reluctance of the mother country to formulate a policy toward trade by inland navigation, even though it retained control and enforced certain restrictions, left the colonial governments to flounder, and produced what even the colonial secretary described as "chaotic conditions." When the imperial government in Jay's Treaty laid down a general principle, the language was so loose as to leave plenty of confusion. Inefficient administration and neglect during the Napoleonic struggle permitted the growth of a border trade far beyond the legal limitations, as the legislation of 1812, confining United States trade to native products, clearly shows. Once established, this trade was impossible to cut off; the efforts at restriction after 1815 were doomed to failure because of desire to make the St. Lawrence the outlet of the American West. Even in the days of her infancy, therefore, Canada had begun to exert an influence on imperial commercial policy. Britain found it impossible to foster the shipping interest at the expense of colonial commerce and revenue and was forced to abandon the bases of the Quebec Revenue Act long before that statute's ultimate disappearance. More important, however, was the decay of the principle of a self-contained empire completely closed to foreigners. While the Navigation Acts and the exclusion of foreign ships remained, the admission of trade with the United States by land and inland navigation breached the Chinese wall. Canada had been integrated into the second British empire only by modifying some of the basic concepts of mercantilism.

## CHAPTER III

# THE DECLINE OF MERCANTILISM

BETWEEN 1822 and 1846 there emerged two distinctly Canadian attitudes toward commercial policy: one sponsored by the merchants who wished to enhance Canada's preferred position in the British market; and the other, the expression of the farmers who wanted to protect agriculture against competition from American farmers while enlarging their markets in Britain for Canadian wheat. While these objectives were at variance with the trend towards free trade in Britain, the victory of free trade there spelled doom for the hopes of the merchants and opportunity for the agricultural protectionists in Canada. The outcome of the clash of interests in the Canadian economy was by no means clear at the outset of the period. During the 1820's the imperial policy of prohibitions on foreigners trading with the colonies was replaced by one of preference, so satisfactory to the colonists when applied to colonial shipments to the United Kingdom. But the preferential system was more highly esteemed in Canada than in Britain where, at the close of the Napoleonic period, the system of mercantilism seemed almost intact but where the mercantilist viewpoint and doctrine were already in decay. There, opponents of trade restriction attacked all its supports from which colonial advantage had been gleaned, the corn laws, the preferential duties, and the Navigation Acts. The situation was, to a degree, the opposite from that existing before the Ottawa Conference of 1932. The bargaining position of Canada was weak in this post-bellum period, for the colony was seeking favours from the mother country without being able to offer any substantial *quid pro quo*. The mother country no longer stood in dire need of colonial timber and the colony was asking Great Britain to sacrifice industrial advantages and foreign trade instead of offering her a sheltered position

in the Canadian market, in which indeed she had no serious rivals in any case. However, even in the face of these difficulties, the colony retained certain preferences in the British market throughout the period we are now to discuss.

The principal developments of the period from 1822 to 1846 centre around imperial legislation, as the provincial tariffs were fairly stable until agricultural protection became a strong force in the 1830's and 1840's. Between 1819 and 1826 trade with the United States was regulated by provincial statutes which in the latter year were assimilated with imperial policy. Conflicts of provincial interests became stronger during this period. To build up their business the merchants wanted Britain to treat American goods shipped via the St. Lawrence as colonial, but they opposed the admission of non-American goods from the United States since they wished to supply Canada with foreign goods themselves.[1] Farmers and grain dealers were dissatisfied because the price of wheat in Britain sank so low that their grain was excluded from the British market.[2] They petitioned for a duty on American wheat entering Canada when Canadian grain was shut out of Britain. The lumber interests were angry when the colonial preference on timber was slashed in 1821.[3] As post-war reaction brought depression in 1820 and 1821 Canadians showed a tendency to blame British commercial policy for all their troubles.

From the Treaty of Ghent to the Act of Union the Montreal merchants and commercial interests in Upper Canada had three major objectives: the unification of the Canadas, increased preferences for Canadian goods in Britain, and the development of St. Lawrence commerce. The reunion of the two provinces would, it was thought, strengthen the colony in financing the improvements necessary to enable the St. Lawrence to compete with the

[1] D. G. Creighton, *The Commercial Empire of the St. Lawrence, 1768–1850* (Toronto: Ryerson, 1937), p. 192.

[2] P.A.C., Series Q, vol. 157, p. 116, Memorial of Quebec Merchants to Bathurst, March 26, 1821.

[3] H. A. Innis and A. R. M. Lower, *Select Documents in Canadian Economic History, 1783–1885* (Toronto: University of Toronto Press, 1933), pp. 235–237, from *Quebec Gazette,* August 9, 1821.

Erie Canal for the trade of the American West. The question of union came to a crisis between 1819 and 1821.

In 1819, when Lower Canada failed to pass the usual bill appointing commissioners to treat with Upper Canada over the division of the customs receipts, Upper Canada repealed its law binding it to levy the same duties as Lower Canada on goods from the United States and embarked on the career of independent tariff-making which was described in the last chapter. It also appealed to Great Britain, suggesting that the port of Quebec be placed under British imperial control and the duties divided between the provinces on the basis of population.[4] The upshot of this, and other problems arising out of divided jurisdiction, was that a bill for the union of the provinces was brought before the British Parliament. Though this bill had the blessing of commercial leaders in both provinces, opposition to it was strong. The French feared eventual domination by the more rapidly increasing English of Upper Canada while the latter, except the merchants, were lukewarm towards union. Those who were concerned with the constitutional struggle which helped to precipitate the union issue believed that the union bill, by discriminating against Lower Canada and removing the seat of government to Upper Canada, was really aimed at the fiscal independence of the Assembly.[5]

The union bill was only part of a larger plan on the part of the imperial government to solve the economic and political problems of Canada. While the debate over union dragged, the rest of the plan was enacted as the Canada Trade Act (3 Geo. IV, c. 119, Imp.), a comprehensive piece of legislation intended to establish tariffs and provide for the division of the customs receipts. The act allowed Upper Canada one-fifth of the customs duties collected between July 1, 1819 and July 1, 1824. At four-year intervals thereafter, a board of three commissioners was to determine the division of duties according to the percentage of imports consumed in each colony. The more important part of the bill ratified

[4] P.A.C., Series Q, vol. 329, p. 351, Maitland Memorandum, August 20, 1821.

[5] *Financial Difficulties of Lower Canada, extracted from the Quebec Gazette of 1824* (published by the *Quebec Gazette*, 1824), *passim*.

and nominally extended the provincial policy of admitting products from the United States by land and inland navigation. So far as the actual entry of goods was concerned, however, the enactment of 1822 made practically no change. Natural products of the United States were admitted, but most manufactured articles and goods of non-American origin were still excluded. The innovation lay in the imposition of new taxes, for most of the enumerated articles were articles already entering Lower Canada free under existing statutes. While raw wool, flax, and cotton were on the imperial free list, wheat flour, rice, grain, shingles, and lumber products were dutiable at moderate specific rates.[6] Livestock, soon to be imported in substantial numbers, bore a duty of 10 per cent ad valorem. This act also made permanent the Lower Canada duties of 1813 and 1818. If the same article were dutiable under both imperial and colonial statutes, only the portion of the imperial duty in excess of that levied by the colony was to apply; if the colonial duty was the higher, the imperial was not applicable. Contrary to this general rule, rum bore a uniform imperial duty of 6*d.* in addition to all colonial duties.

The system of imperial and colonial duties that now emerged was very complex. The duties themselves were short-lived, and detailed statement of them is unnecessary. Only in a few cases, such as rum, did the mother country and the province enact duties on the same commodity, for their objectives differed. In conformity with the Declaratory Act the British imposed duties on imports of foreign goods for the regulation of trade, while the provinces were interested in raising revenue or in admitting essential supplies. Empire products, such as tea, molasses, and sugar, were therefore subject to colonial rather than imperial duties. The 2½ per cent ad valorem duties levied at Quebec and apportioned between the two colonies covered a wide range of Empire and foreign commodities which received no attention in imperial statutes. Trade with the United States, however, was subject to legislation by the mother country and the two provinces. By the Canada

[6] Fuller treatment of these duties is not given as they were soon superseded by later acts.

Trade Act Britain taxed a number of American items, particularly grain and other agricultural products, which Lower Canada had been admitting free. Upper Canada, on the other hand, levied duties on wheat, other grains, flour, livestock, and certain types of lumber which were much heavier than the new imperial duties. By imposing a duty on leather, spirits of turpentine, and hops from the United States, Lower Canada in effect conferred a preference on similar goods from Great Britain, but this amounted to little except perhaps in the case of leather. In like manner, Upper Canada conferred a preference on British exports of salt, leather, and nails. Though imperial legislation maintained Britain's advantage in rum, molasses, brandy, gin, and other spirits imported from foreign countries, the Canada Trade Act itself marked Britain's final abandonment of the advantage over the West Indies conferred in the Quebec Revenue Act. Thus, long after the rum trade lost its vital significance for Canada, the United Kingdom gave up the mercantilist ambition of stimulating triangular voyages by means of differential duties on the commodity.

The admission of foreign shipping to colonial ports is properly a part of the commercial history of Canada, and it is of vital significance because the exclusion of foreign vessels was a cardinal principle of mercantilism, and that principle was now under strenuous attack. The problem divides itself into two parts: just as a different trading policy had been devised for dealing with inland, as compared with sea-borne trade, so had inland navigation, principally on the Great Lakes, been regarded in a light different from ocean shipping. Since the American Revolution, trade on the Great Lakes in British, Canadian, and American ships had been free of the curbs of the Navigation Acts. Without the slightest heed to the Navigation Acts American ships brought their goods to Canadian ports and carried away Canadian products. They even engaged in the Canadian coasting trade.[7] After the Canada Trade Act the provincial governments assumed, probably contrary to actual British intention, that commodities not enumerated in that act could be imported as before, subject to provincial

[7] P.A.C., Series Q, vol. 324, p. 180, December 8, 1818.

duties; but they realized that enumerated goods could not legally be brought to Canadian ports in American ships. Canada thus found herself committed for the first time to the arduous task of applying the Navigation Acts to the Great Lakes and inland water routes. This, the commercial interests of the St. Lawrence, wedded to the *entrepôt,* did not much relish.[8] The act also interfered with Quebec's position as a trans-shipping point for American flour which now had to pay a duty of 10 per cent whereas it had formerly entered free if bonded for export. The legislation of 1822, therefore, stiffened the rates of duty on trade which had largely been free before 1818 and called attention to the dormant Navigation Acts. Attempts by Canadian officials to enforce them proved quite futile, however.

Another act of 1822, the West Indian and American Trade Act (3 Geo. IV, c. 44, Imp.), attempted to provide a basis for reconciling long-standing British-American differences over commercial questions by throwing open free ports in the West Indies and North America. Though the act failed of its main purpose, it was important to Canada because, for the first time, Quebec became a free port.[9]

The duties of the Canada Trade Act did not remain long unamended. In England liberal opinion, led by Huskisson, favoured throwing colonial trade open to the world. In 1825 a compromise between liberals and trade monopolists of the mercantilist persuasion resulted in a broadened list of exchangeable commodities (6 Geo. IV, c. 114, Imp.).[10] Rates on goods from foreign countries were raised, however, and the margins of preference widened as the duties under the new acts applied to foreign goods only, with the exception of certain duties on spirits. The latter were taxed more highly when of foreign, as compared with Empire, origin. Most of the specific duties of 1822 were reënacted, and to these a long list of ad valorem rates was added. (See Table 1.) About 7½ per cent was the most popular rate on the necessities of life.

[8] See *Journals of Assembly of Lower Canada,* 1826, p. 360, March 23, 1826.

[9] The trade controversy with the United States is discussed in Chapter V.

[10] See also, 6 Geo. IV, c. 73, Imp.

Articles which in a pioneer community might be considered luxuries bore 20 or 30 per cent. Leather manufactures, linen, watches, books, glass manufactures, wire, and manufactured tobacco were taxed 20 to 30 per cent. Wines bore a compound duty. The rate on the general or not-otherwise-provided-for (n.o.p.) list, used for the first time in imperial legislation, was 15 per cent, 12½ per cent in excess of the general colonial rate. Foreign

TABLE 1

DUTIES EFFECTIVE AFTER THE ACT OF 1825 (6 GEO. IV, C. 114) ON FOREIGN IMPORTS—LOWER CANADA

| Commodity | Rate of Duty | Type of Duty |
|---|---|---|
| Glass and glassware | 20% | Imperial |
| Hardware | 15% | Imperial |
| Leather manufactures | 30% | Imperial |
| Linen manufactures | 30% | Imperial |
| Paper manufactures | 15% | Imperial |
| Wheat | *1s.* per bushel | Imperial |
| Wheat flour | *5s.* per barrel | Imperial |
| Oats | *7d.* per bushel | Imperial |
| Barley | *7d.* per bushel | Imperial |
| Peas | *7d.* per bushel | Imperial |
| Manufactured tobacco (not snuff) | Higher of *2d.* lb. or 20% | Colonial and Imperial |
| Livestock | 10% | Imperial |
| Butter | 15% | Imperial |
| Cheese | 15% | Imperial |
| Leaf tobacco | 3½*d.* or 15% | Colonial and Imperial |
| Flour (other than wheat) | *2s.* *6d.* cwt. | Colonial and Imperial |
| General provisions | 15% | Colonial and Imperial |

goods imported via the United Kingdom enjoyed a preference of 10 per cent of the general rates. After 1825 only fire-arms, ammunition, sugar, rum, coffee, tea, salted fish, fresh and salted provisions, and a few minor items were forbidden entry to Canada from the United States.[11] This statute marked a great step toward the freeing of trade, not only by allowing the entry of almost all foreign goods but by admitting to colonial ports foreign ships of

[11] Fresh and salted provisions were allowed in only from most favoured nations.

all countries carrying goods from their own countries, European and American, a virtual abandonment of the Navigation Acts with respect to free ports.

The act of 1825, however, (6 Geo. IV, c. 114, Imp.) emphasized Britain's demand for fair treatment in American ports by forbidding the importation into Canada of foreign products—coffee, sugar, tea, rum, and molasses—by way of the United States (similar to order of 1812), thus dealing an indirect blow to American shipping. When the United States failed to grant most-favoured-nation treatment to Britain in 1825, American ships were excluded from Newfoundland and the British West Indies after December 1, 1826. Quebec, however, remained open. In 1830 Jackson's administration sponsored the repeal of the discriminations against British ships coming from the West Indies to the United States, and offered reciprocal treatment of ships. This met the British objections to granting most-favoured-nation treatment. In November 1830 the ports of all British colonies were opened to American ships.[12] At the same time Britain expressed the desire to make trade as free as possible between the Canadas and their southern neighbour, but did nothing to give the Canadas greater tariff autonomy until she herself was ready for free trade in 1846. From 1830 onward, however, the Navigation Acts became a dead letter so far as Canadian-American sea-borne trade was concerned, and there was henceforth no question of the long-assumed right of American ships to trade with Canada by inland navigation.

No phase of imperial commercial policy interested Canadians more than the question of British preferences to colonial products. It is also closely related to colonial tariff policy. In 1821, to the very great dissatisfaction of the colonists, the timber duties had been reduced though the margin between foreign and colonial timber duties was still £2.5*s*. per load (1 & 2 Geo. IV, c. 37, Imp.). The same act, however, gave a stimulus to the St. Lawrence route by granting American timber shipped via Canada the same rate

[12] P.A.C., Series G, vol. 66, p. 276, Murray to Colborne (Circular), November 10, 1830.

as colonial. Nine years later, when the West Indies were thrown open to American trade, the imperial government gave assurance that it did not intend to neglect the colonial timber interest.[13]

The chief object of concern in the 1820's, however, was the winning of a real preference on colonial wheat. Though the corn law of 1815 (55 Geo. III, c. 26, Imp.) admitted colonial wheat long before foreign, it was of little practical value, because the price of wheat in Great Britain generally remained below the colonial import level. Canadian agitation was therefore directed toward obtaining free entry for colonial wheat and the acceptance of American wheat, shipped from Canada, as colonial. During the 1820's various changes were made, culminating in 1828 in a measure which admitted colonial wheat at 6*d.* per quarter when British wheat rose above 67*s.*, and at 5*s.* when the British price was below 67 (9 Geo. IV, c. 60, Imp.).[14] Without satisfying all the merchants' demands this act granted a substantial boon to the grain trade. While American wheat was not admitted as Canadian, flour ground in Canada from American grain was customarily received in England as colonial.[15]

The desire to make the St. Lawrence the route of American commerce bound for England roused objection to the 15 per cent imperial duty imposed in 1825 on American raw materials and partially processed goods entering Canada for processing and export to the United Kingdom. This was because imported hides and pot and pearl ashes were becoming the basis of small domestic industries for which Britain was the chief market. The merchants, alarmed over the competition of the Erie Canal, desired that all bulky products in transit between the United States and Britain should pass through the St. Lawrence duty-free.[16] Concessions to this view began in 1826 when Britain allowed American salt beef and pork to pass through Canada duty-free for export to

[13] P.A.C., Series G., vol. 67, pp. 73 and 86, Goderich to Colborne, February 9 and March 7, 1831.

[14] Foreign wheat entered Britain at 1*s.* when the price was at or above 73*s.* per quarter. When the price was under 64*s.* it was 15*s.* 8*d.*

[15] P.A.C., Series G., vol. 185, p. 59, Stanley to Metcalfe, July 12, 1843.

[16] P.A.C., Series Q, vol. 176, pt. 1, p. 7, Legislative Council, March 13, 1826.

Newfoundland. Flour for the West Indies or South America was also permitted to pass through Canada in bond. United States masts, timber, and potash were allowed to enter the United Kingdom without paying duty in transit through Canada (7 Geo. IV, c. 48, Imp.).

In 1831 the merchants won a decisive victory when imperial duties on American wheat, flour, meal, salted provisions, and agricultural products, generally imported into Canada by land or inland navigation, were removed (1 Wm. IV, c. 24, Imp.).[17] These articles from the United States could thenceforth be readily re-exported by Canada to the British West Indies and British South American colonies.[18] Since American grain shipped via the St. Lawrence to England still faced the prohibitive corn law rates on foreign wheat, while Canadian wheat enjoyed a substantial preference, this Colonial Trade Act of 1831 stimulated shipment of Canadian wheat to Britain and its replacement by free imports from the south for domestic consumption. The act also encouraged the St. Lawrence milling trade because flour manufactured in Canada from American wheat was admitted to England as colonial. While the St. Lawrence merchants were pleased with this policy, the farmers objected to the inflow of American wheat and flour, especially when the corn laws shut Canadian grain out of England.[19] Agricultural protectionism was growing, especially in Upper Canada.

Imperial trade laws were again overhauled in 1833 (3 & 4 Wm. IV, c. 59, Imp.). Though the new act prohibited the same foreign goods as the statute of 1825, with the exception of salt beef and pork, it continued the 1831 policy of admitting wheat, flour, and salted provisions free, and it marked a very considerable liberalization of Canada's trade by its extension of the free list.[20] Wood

[17] These commodities were free under colonial levies.

[18] The American flour imported was to replace Canadian wheat and flour on the domestic market.

[19] The Maritime colonies did not share this exemption from imperial duties and were therefore handicapped in the West Indian trade. See Chapter V.

[20] In 1833 Canada made its first shipment of pork and beef to England. Innis and Lower, *Select Documents*, p. 247, *Neilson's Quebec Gazette*, quoted in *Montreal Gazette*, October 8, 1833.

and lumber, salt, drugs, dyes, turpentine, sulphur, fruits, vegetables, and cotton could now enter free unless they were subject to colonial duties. The ad valorem duties on higher priced foreign manufactures were retained at the 1825 levels and the n.o.p. rate remained at 15 per cent. No duties were charged on products that had paid duties in the United Kingdom and had not received drawbacks on export therefrom. Imports from foreign countries routed through the United Kingdom, being subject to drawback on re-export, still entered at 10 per cent off foreign rates. The act also augmented intra-Empire preferences. Wheat flour, salt beef and pork, shingles, staves, and pine lumber were allowed free entry into the Maritime Provinces when imported from British North America while they were dutiable when coming from foreign countries. Wines and spirits were given preferences when imported from the British West Indies. Britain wished colonial duties to be equalized as between different colonies and to have each colony reciprocate advantages received in the other's markets.[21]

By this time Canadians were beginning to object to British regulation of colonial trade and to desire greater autonomy in tariff making. In the session of the Assembly of Upper Canada of 1826–27 a motion "that the interests of this Province require that its commercial intercourse with the United States should be regulated by the Provincial Legislature" had been moved but voted down.[22] In 1836 and 1838, however, the Assembly passed an address favoring provincial control of trade.[23] Even so staunch an imperialist as Sydenham pointed out to the home government that the colonists had grounds of complaint because of the capriciousness of British trade policy and the Board of Trade's ignorance of local conditions.[24] Particular complaint was directed against the East India Company's monopoly in the colonial market, especially in tea, and against the alleged inadequacy of Brit-

[21] P.A.C., Series G, vol. 273, p. 89, Spring Rice to Sir A. W. Young, July 23, 1834.

[22] *Journals of Legislative Assembly of Upper Canada*, 1826–1827, p. 57.

[23] *Journals of Legislative Assembly of Upper Canada*, 1836, p. 174 and *ibid.*, 1837–1838, pp. 379–380.

[24] *Journals of Legislative Assembly of Canada*, 1842, p. 42.

ish preferences to the colonies.[25] Imperial duties and prohibitions led to a great deal of smuggling of tea from the United States.[26] During the hard times of the middle thirties, the legislature of Upper Canada petitioned for the complete removal of British duties on tobacco, wheat, and flour grown or manufactured in Upper Canada.[27] The Colonial Office held out the promise of greater autonomy in the future, but nothing was done to liberalize trade conditions between the Canadas and the United States or Britain. Landowners in the mother country were clinging to their protection and were not disposed to sacrifice it even on the altar of Empire solidarity.[28] Salted provisions, however, were put on the list of free goods passing from Canada to the Maritimes in 1838.[29]

Economic distress provides the key to colonial unrest in the 1820's and 1830's. The lack of a sound currency system in Upper Canada had long been a handicap to business.[30] During the twenties Canada had an unfavourable balance of trade, and specie which the provinces could ill spare was drained southward to the United States.[31] Depression stalked the Canadas from 1833 to 1838. Wheat growing fell on such evil days that a select committee of the Upper Canada Assembly reported in 1834–35 that

[25] *Journals of Legislative Assembly of Upper Canada,* 1835, p. 341, and 1836, p. 174, February 16, 1836; 3 & 4 Wm. IV, c. 59 allowed American ships to bring such goods directly from country of origin

[26] P.A.C., Series Q, vol. 160, p 172, Arthur to Normanby, September 10, 1839; and *Upper Canada Sundries,* W. H. Merritt to Arthur, February 13, 1839.

[27] Upper Canada had received a 3*d.* per pound preference on tobacco in 1824 (P.A.C., Series G, vol. 60, p. 250, Bathurst to Maitland, June 1824). In 1836 Upper Canada wanted a further abatement of 3*d.* per pound so that its tobacco would have a 6*d.* advantage (*Journals of Legislative Assembly of Upper Canada,* 1836, p. 241). The Colonial Office refused because the British duties were for revenue (*ibid.,* 1837–1838, p. 165). The Upper Canada Assembly also petitioned for the complete remission of the British duties on wheat and flour in 1833 (*ibid.,* 1833–1834, p. 154). The Board of Trade refused (*ibid.,* 1837–1838, p. 171).

[28] P.A.C., Series G, vol. 79, pp. 65 and 200, Glenelg to Head, January 25, 1839 and February 18, 1837, and vol. 80, p. 384, Glenelg to Head, March 10, 1837.

[29] P.A.C., Series G, vol. 276, p. 69, Glenelg to Fitzroy, March 5, 1838.

[30] Innis and Lower, *Select Documents,* pp. 219–223.

[31] Innis and Lower, *Select Documents,* p. 243, *Neilson's Quebec Gazette,* quoted in *Montreal Gazette,* March 3, 1829, and *ibid.,* p. 239, "Sketches of Upper Canada" by Howison.

wheat-growers were operating at a loss.[32] Canadian wheat was shut out of Britain by a fall in prices in the United Kingdom in 1834. At first some relief was afforded when the United States tariff was lowered by Clay's compromise tariff of 1833. In 1835, in fact, the export to the United States of indigenous Canadian products really flourished,[33] but this trade languished after the American panic of 1837. The cleavage between the merchants—who were trying to foster St. Lawrence commerce—and the farmers deepened, as agricultural protectionist sentiment grew.[34] The legislature's sessions became sounding boards for acrimonious debates between small-scale manufacturers and merchants favouring a continuance of protection on manufactured products and free trade in food and raw materials, and articulate farmers upholding the opposite view.

In 1835 came the most emphatic colonial effort up to that time to impose protection against products from the United States, when a measure "to afford a proper protection and encouragement to those engaged in agricultural pursuits and other operations" was introduced in the Assembly of Upper Canada.[35] The duties proposed covered livestock and general agricultural products. Most of the rates were high: for example, salt pork 5*s.* and salt beef 3*s.* 9*d.* a hundredweight, wheat 1*s.* 3*d.* per bushel, and wheat flour, 2*s.* 6*d.* a hundredweight. The rates on livestock, £2 10*s.* on horses, £1 on oxen, and 15*s.* on cows, were about the level of the tariffs in the Maritimes where a livestock industry was being fostered at this time. Debate in the Assembly centred on the question whether these duties should be restricted to goods imported for domestic consumption. Though the mercantilist interests went down to defeat in the Assembly in the effort to save the transit trade from these exactions, they were successful in the Council,

[32] *Journal of Legislative Assembly of Upper Canada,* 1835, App. 11, pp. i–ii.

[33] Innis and Lower, *Select Documents,* p. 251, *Quebec Gazette,* quoted in *Montreal Gazette,* June 11, 1835.

[34] *Journals of Legislative Assembly of Upper Canada,* 1832, App. 1, No. 21, p. 87; and *Kingston Herald,* quoted in *Montreal Gazette,* June 4, 1835.

[35] *Journal of Legislative Assembly of Upper Canada,* 1835, p. 240, March 14, 1835.

where the bill failed to pass.[36] The farmers were so embittered that the refusal of the Council to pass this bill was made one of several complaints against it in an address to the King.[37] Thus tariff controversy added fuel to the fire that was to break out into open rebellion two years later.

The risings of 1837 called attention to the problems of the St. Lawrence provinces but brought no immediate improvement. Despite the economic collapse in the United States in 1837, heavy emigration to that country resulted, and the rapid expansion south of the Lakes between 1838 and 1840 when railroads were already starting westward added to the discontent in Upper Canada. There was a renewal of agitation for a union of the provinces and for financial assistance from the British capital market in the long competitive battle of the St. Lawrence with the Erie Canal.

Lord Durham's analysis of the woes of the colonies bore out the demand for union by pointing up fiscal problems, especially in Upper Canada. Both legislatures were almost wholly dependent upon customs receipts, for while Upper Canada levied small land and general property taxes, in Lower Canada French habitants and seigneurs outvoted the merchants who favoured direct land taxes.[38] Provincial revenues, therefore, fluctuated with commercial conditions; as Durham observed, "the amount of the revenue has within the last four years [from 1835 to 1838] diminished from about 150,000 livres to little more than 100,000 livres per annum." [39] Since these revenues, even in prosperous times, were by no means adequate, the permanent expenditure of the British government in the colony amounted to about 60,000 livres per year. Durham put his finger on the chief difficulty when he pointed out that because of the joint collection of most customs

[36] *Journal of Legislative Assembly of Upper Canada,* 1835, App., No. 32, p. 1.

[37] Address of April 15, 1835 printed as a pamphlet (Toronto: R. Stanton, 1836).

[38] For Upper Canada's taxes, see Innis and Lower, *Select Documents,* p. 48 quoting Howison, "Sketches of Upper Canada." Lord Durham remarked in his report: "there is hardly the semblance of direct taxation in Lower Canada for general and local purposes." P.A.C., Series Q, vol. 163, p. 87.

[39] P.A.C., Series Q, vol. 163, p. 86.

duties Upper Canada, which was in financial need, could not be provided for without increasing the revenues of Lower Canada, which at that time had ample resources. For this period the division of customs duties was on a 60–40 basis, the larger percentage going to Lower Canada. By the Canada Trade Act these percentages were changed every four years in accordance with the percentage of imports entered for consumption into each province. This, of course, could only be roughly estimated. Durham also remarked unfavourably on the large amount of smuggling that went on and on the height of the tariff as far as legitimate trade was concerned.[40]

As union drew near the province of Lower Canada, which had been quiescent in tariff-making since 1819, passed a new tariff law (2 Vict., c. 25, L.C.) which marked a definite change of policy. In the past colonial duties had applied to Empire commodities not subject to imperial duties or to foreign goods in the few instances when the colonial were above the imperial rates. The new act asserted the province's power to levy duties in addition to those in the imperial act of 1833. This act suspended all the provincial acts and levied a new set, but these did not greatly change the level of duties imposed twenty or more years before. The innovation lay in making the colonial duties additional to the imperial, that is, the general rate remained 2½ per cent but was now added to the 15 per cent (n.o.p.) levy of the imperial act. The same principle also applied to specific duties which were levied on wines, spirits, sugar, molasses, coffee, tea, tobacco, and salt. Most of these goods could not enter from the United States, being of non-American origin.[41] The free list, the important feature for American trade, included foodstuffs, furs, skins, livestock, turpentine, hemp, butter, cheese, and honey.

But sentiment was growing, especially in Upper Canada, in favour of protection against agricultural imports from the United

[40] P.A.C., Series Q, vol. 163, p. 94.

[41] They could, however, be brought by ships of any country directly from the country of origin to Canada.

States.[42] Wheat-growers were cut off from Britain by high freight charges on every stage of the long journey and, in periods of low wheat prices in Britain, by the corn laws as well. They had to look to the domestic market and naturally felt a severe pinch when duty-free wheat and flour were dumped north of the border in periods of seasonal surplus in the United States. In 1840 the farmers in the legislature of Upper Canada won a battle in their struggle as that body passed a bill imposing duties on agricultural imports (3 Vict., c. 1, U.C.). Though the act permitted flour, grain, and pork to pass through in bond for export, the bill was reserved by the governor and disallowed by the Colonial Office. The imperial authorities took the position that since Upper Canada usually exported some grain to Britain a protective tariff could not raise the domestic price since the latter was governed by world supply and demand.[43] In view of the seasonal nature of the market and the isolated position of the colony from the world market, such a conclusion was scarcely warranted. Two million bushels of wheat were imported from the United States in 1840 and two and a third million in 1841, three or four hundred thousand bushels more than total Canadian wheat exports.[44] In 1842 farmers in what had been Upper Canada petitioned the British government for free admission of Canadian wheat into England and the imposition of a duty on American grain coming into Canada.[45] The first part of the petition was agreeable to the Montreal merchants who held that the farmer in Great Britain was sufficiently protected by the high costs of transportation from Canada. But the merchants were strongly aligned against any restrictions on the flow of American grain which would reduce the precarious advantage of the St. Lawrence route.[46] Nor were British authorities, under the influence of agrarian opinion at

[42] *Toronto Morning Star,* November 11, 1840.
[43] *Journals of Legislative Assembly of Canada,* 1842, pp 43–46.
[44] Creighton, *Commercial Empire of the St. Lawrence,* p. 341.
[45] P.A.C., Series G, vol. 458, p. 286, Bagot to Stanley, April 28, 1842.
[46] P.A.C., Series G, vol. 458, p. 117, Bagot to Stanley, February 21, 1842.

home, in a mood to assist the colonists by reducing duties on colonial grain below the 1828 levels. In fact they took up arms to scotch a proposal by Gladstone to tax American produce entering Canada and to impose only a nominal duty on Canadian wheat coming into Great Britain. Gladstone was forced to drop his plan.

The union of the two Canadas, Durham's outstanding recommendation, was consummated on July 23, 1840. The long struggle over the division of customs was at last ended, and the financial position sufficiently improved to make possible the development of the St. Lawrence waterway. The Act of Union (3 & 4 Vict., c. 35, Imp.) specifically reserved to the imperial government the right to regulate trade by tariffs as the Constitutional Act had done fifty years before. While the farmers were unsatisfied it seemed that the expanding forces of trade and transportation had won a victory through the enlargement of their trading sphere. The farmers, however, were to gain protection within three years and the merchants found the fruits of their victory turn sour six years later when British preferences came to an end.

In September 1841 the new Canadian legislature consolidated the already nearly identical provincial customs acts of Upper and Lower Canada. A general ad valorem rate of 5 per cent, double the preceding n.o.p. rate, was adopted at Sydenham's suggestion to cure the financial difficulties of the colony (4 & 5 Vict., c. 14, Provincial).[47] This act repealed all the existing provincial duties. With the exception of the new 5 per cent levy, the changes in the 1839 duties were comparatively minor. The madeira wine duty was raised from 9*d.* to 1*s.* per gallon; tea duties were reduced from 4*d.* to 3*d.* per pound; manufactured tobacco was charged 2*d.* a pound, and unmanufactured tobacco 1*d.* per pound; spirits from the United Kingdom entered at 3*d.* per gallon, from foreign countries and British possessions in North America at 6*d.* Ad valorem duties were now levied according to either declared or invoice value of goods, and duties were collected in sterling. The Colonial

[47] Under the new constitution, all bills for the expenditure of money and for taxation originated with the Governor and had to be submitted to the Assembly for discussion.

Office was highly critical of the act; it held that the duties on tea were so high as to encourage smuggling, the discrimination against madeira was unreasonable, and the duty on spirits made the collection of the imperial duty very complicated.[48] The act was allowed, however.

As in 1822 and 1825, 1842 was a year in which imperial policy took a significant turn. In that year a new imperial tariff (British Possessions Act), a new corn law, and new timber duties were passed. The British Possessions Act (5 & 6 Vict., c. 49, Imp.) repealed all imperial duties on intercolonial trade, including those of 1769, 1766, 1774 (Quebec Revenue Act), and other survivals of the heyday of mercantilism, and promulgated a new list applicable only to foreign goods. The imperial duties now constituted a well-rounded set of preferences on Empire goods in the various colonial markets. If perchance a colony applied a higher duty to Empire rather than to foreign goods, an event not anticipated owing to the veto powers which the Colonial Office preserved over colonial legislation, the imperial duties could be increased to preserve the desired margin of preference. Since imperial duties in Canada had been applied to foreign goods since the lifting of trade restrictions in 1822 and not generally to those of the mother country or other colonies, this legislation was not a radical departure for the colony. The 1842 measure made an important change in import regulations, allowing coffee, sugar, molasses, and rum to come in from the United States. East Indies tea was added to the list a short time later. The smuggling trade had long exceeded the legitimate commerce, and this measure was further recognition that mercantile prohibitions meant little in the inland trade of the American continent. Only munitions and weapons of war, counterfeit coins, and such minor articles as objectionable books were still banned from entering the colonies from foreign countries. Preference had completely replaced prohibition in the British commercial system.

The general list of the imperial duties applying to foreign goods was sharply reduced from the 1825 level of 15 per cent to 4 per

[48] P.A.C., Series G, vol. 113, p. 283, Stanley to Bagot, April 30, 1842.

cent in 1842, but in the latter year colonial duties at 5 per cent were additional to imperial levies. Textile manufactures, soap, candles, hardware, and similar consumption goods were taxed 7 per cent. Luxury products, such as silks, manufactures of glass, and spermaceti, were charged 15 per cent. Sugar of foreign origin but refined in the United Kingdom bore 10 per cent in addition to the colonial duty of 1*d*. per pound. Sugar produced and refined in foreign countries was charged 20 per cent plus colonial duties.[49] Goods of all kinds, except sugar and tea, warehoused in the United Kingdom, were subject to only three-fourths of the regular imperial rates when imported into the colonies. Wheat flour, salted meats, fish, butter, and unrefined sugar were now subject to small specific duties.[50] At the same time the free list covering raw materials and agricultural products remained extensive, and this act reduced the effective duty by as much as 8 per cent on parts of the general list.

The British corn law of 1842 (5 & 6 Vict. c. 14) disappointed Canadian farmers because it did not give them a free market in Great Britain nor protection at home. However, it resulted in a great improvement of their position. By the law of 1828 Canadian wheat was charged 5*s*. per quarter till the price of British wheat went above 67*s*.; in the new act the duty was 5*s*. until British wheat was above 55*s*. and only 1*s*. when the British price went above 58*s*. This threw open to Canadians a much larger segment of the British market than ever before.

Indirectly, also, the act had great influence upon commercial policy. In the despatch discussing the new corn law, Stanley, the Colonial Minister, declared that one reason why Canadian wheat

[49] The following year the British government warned that any colonial duty imposing a higher rate on sugar of foreign origin refined in the United Kingdom than on sugar of colonial origin refined there would be disallowed (P.A.C., Series G, vol. 117, p. 148, Stanley to Metcalfe, June 28, 1843).

[50] Wheat flour was dutiable at 2*s*. per barrel; foreign fish at 2*s*. per hundredweight; salted meat at 3*s*. per barrel; butter at 8*s*. per hundredweight; cheese at 5*s*. per hundredweight; coffee at 5*s*. per hundredweight; molasses at 3*s*. per hundredweight; unrefined sugar at 5*s*. per hundredweight. Grain, fresh meat, fish, wood, and lumber, cotton, hemp, flax, livestock, salt, and rice were free.

and flour were not allowed unrestricted entry into Britain was the possibility of tremendous shipments from the United States. The imperial government could prevent this by laying a heavy duty on United States wheat entering Canada, but it was unwilling to prohibit the entry of an article which Canada might need to import for consumption.[51] This desire of the Colonial office to limit imports of United States wheat into Canada, in the interests of the British landlord, amounted to a reversal of imperial attitude since the disallowance of Upper Canada's protective duties in 1840. Agricultural interests in Canada were quick to push their advantage (i.e., Stanley's implied offer) despite opposition from the merchants.[52] A provincial duty of 3*s.* per quarter was thenceforth imposed on American wheat entering Canada (6 Vict., c. 31, Provincial). The following year the British honoured the bargain which the Canadians had read into Stanley's despatch by passing the Canada corn law (6 & 7 Vict., c. 29, Imp.). In view of Canada's duty on foreign wheat, Parliament reduced the duty on Canadian wheat to 1*s.* per quarter, allowing it to enter irrespective of the British price. Proportionally reduced duties were imposed on flour, and the hope was expressed that this would encourage the milling of United States wheat in Canada.[53]

The new timber duties of 1842 were a blow to vested interests in Canada. The British Possessions Act removed the duties on foreign timber entering the colonies, particularly the West Indies. The imperial government acted in the belief that Canada and New Brunswick would not be hurt because the United States already had to buy from them.[54] Furthermore, the possibility of substituting a colonial in place of the abolished imperial duty was not ruled out.[55] But what concerned the lumber interests most was the retention of their preference by the maintenance of the

[51] P.A.C., Series G, vol. 112, p. 276, Stanley to Bagot, March 2, 1842.

[52] The Board of Trade of Quebec petitioned for royal disallowance of this act (P.A.C., Series G, vol. 459, p. 407, Bagot to Colonial Office, January 27, 1843).

[53] P.A.C., Series G, vol. 117, p. 220, Stanley to Metcalfe, July 18, 1843.

[54] P.A.C., Series G, vol. 114, p. 303, Stanley to Bagot, August 17, 1842.

[55] *British Parliamentary Papers, Accounts and Papers (Colonial)*, 1846, XXVIII, Sess. No. 691, Tariffs, p. 105, Stanley to West India Governors, July 30, 1842.

almost prohibitive duties on Baltic timber in the mother country. In 1842 they began to lose their advantage when the duties on foreign timber were slashed from £2 15*s*. a load to £1 10*s*. with the further proviso that after October 1843 the rate was to be £1 5*s*. Colonial timber, however, paid only a registration duty of 1*s*. per load (5 & 6 Vict., c. 47, Imp.). But the drive against the timber duties continued with further reductions in 1845 (8 & 9 Vict., c. 90, Imp.) and 1846 (9 & 10 Vict., c. 23, Imp.). A shrinking margin between colonial and foreign timber remained till 1851 (14 & 15 Vict., c. 62, Imp.) when the distinction was eliminated completely. Timber from any source was free after 1860. The Canadian timber trade, however, actually prospered until the end of 1845, despite the loss of some preference. There was a great demand for timber in Great Britain at that time and, since Baltic and Canadian timber were to some extent complementary, increased use of one stimulated demand for the other. Furthermore, the duty on foreign timber only equalized shipping costs from the Baltic and from Canada.[56]

While the British government was thus feeling its way toward free trade, the Canadian legislature in 1843 adopted a genuine system of agricultural protection in the shape of countervailing duties against the United States (7 Vict., cc. 1 and 2, Provincial).[57] Practically all farm products were taken off the free list. Wheat remained at 3*s*. per quarter as under the colonial legislation of the previous year. Horses at £1 10*s*. per head, cattle at £1, sheep at 2*s*., swine at 5*s*., and poultry at 10 per cent ad valorem were the more important livestock products subjected to colonial duties for the first time.[58] Grains, such as rye, beans, and maize at 3*s*. per quarter, oats at 2*s*. per quarter, fresh meat at 4*s*. per hundredweight, and butter at 2*s*. per hundredweight were among the other agricultural products covered. Earlier in that year the

[56] P.A.C., Series G, vol. 123, p. 365, Gladstone to Cathcart, March 3, 1836.

[57] P.A.C., Series G, vol. 460, p. 103, Metcalfe to Stanley, November 21, 1843.

[58] These duties on cattle and agricultural produce actually brought in revenue and, except for hops, did not check imports from the United States (P.A.C., Series G, vol. 460, p. 440, Metcalfe to Stanley, May 9, 1845).

British government had warned all the colonial governments that provincial duties levied according to place of production or export would be disallowed.[59] Since the Canadian duties applied to all foreign countries without ostensible discrimination, they complied with the letter if not the spirit of the Colonial Office's admonition. Though the customs tariff of 1843 was allowed, the imperial authorities expressed disapproval on the ground that such a policy might interfere with trade between the United Kingdom and the United States.[60] This was a most notable victory for the agricultural interests of the colony.

The St. Lawrence trading position now indeed seemed threatened from all directions. In 1845 and 1846 the United States passed drawback laws which enabled Canadian imports and exports to pass through American territory without restriction and thus to take advantage of the lower shipping rates from New York to England.[61] This was a shattering blow to the St. Lawrence route, which was always more expensive than the southern route. Imports through Montreal fell while those through the United States increased.[62] The response among Canadian merchants was a demand for differential duties on goods brought into Canada by inland navigation and for the genuine application of the Navigation Acts on the Lakes.

Protectionist sentiment, rather than commercial opinion, produced a colonial customs act in 1845 which would have levied discriminatory duties on goods coming by inland navigation, raised the rates against British goods, and reduced those on raw materials to encourage home manufactures (8 Vict., c. 3, Provincial). The Toronto Board of Trade, however, complained because the bill favoured certain interests and later claimed credit for its modification.[63] Even without colonial petitions the act would

[59] P.A.C., Series G, vol. 117, p. 148, Stanley to Metcalfe, June 28, 1843. Sugar was specifically mentioned, see above, n. 42.

[60] P.A.C., Series G, vol. 120, p. 315, Stanley to Metcalfe, September 26, 1844.

[61] *U. S. Statutes at Large,* V, 751, and IX, p. 77.

[62] Innis and Lower, *Select Documents,* p. 192.

[63] Annual Report of Council of Toronto Board of Trade, in *Toronto Globe,* January 8, 1848, quoted in Innis and Lower, *Select Documents,* p. 363.

have been displeasing to the British government. Gladstone objected to the discriminatory features and the increase of duties for other than revenue purposes. In a compromising spirit, however, he told Cathcart that the Cabinet would not favour new differential duties on goods brought into Canada by inland navigation but that if the people of Canada really wanted such duties the governor was not to veto them. Though the British Cabinet objected to higher duties on articles coming by sea, goods coming by inland navigation might possibly be considered in a different category. The imperial government also preferred to have the colonial duty of 3*s*. a quarter on American wheat reconsidered.[64] As a result of Gladstone's insistence the act was amended and became the customs law of 1846 (9 Vict., c. 1, Provincial). This act made permanent the duties of 1843 on wheat imported for home consumption and on livestock, meats, and other foodstuffs, but omitted (with a minor exception for leather manufactures) discriminating duties on United States products imported by inland navigation.

In 1846 came the fateful news that Great Britain was abolishing the corn laws and that within three years Canada's favoured position in British markets would be lost. Later in the same year the British government invited the colonies to remove all differential duties favouring imperial commerce (9 & 10 Vict., c. 94, Imp.).[65] The imperial duties, which were now to be repealed, had been the most important factor in the Canadian tariff since 1825 and had

[64] P.A.C., vol. 123, p. 155, Gladstone to Cathcart, February 3, 1846.

[65] Innis and Lower, *Select Documents*, p. 349, quoting *Canadian Economist*, July 18, August 15, 1846:

| Article | Imperial and Colonial Duty on Foreign Goods | Colonial Duty on British Goods |
|---|---|---|
| Glass and glassware ...... | 20% | 5% |
| Hardware ............... | 12% | 5% |
| Leather manufactures ..... | 12% | 5% |
| Manufactures, cotton, linen, woolen ............. | 12% | 5% |
| Paper manufactures ...... | 12% | 5% |
| Brandy and other spirits .. | 2*s*. 3*d*. per gal. | 1*s*. 3*d*. per gal. |
| Wine .................. | 17% and 8*d*. per gal. | 10% and 8*d*. per gal. |

in reality afforded considerable preference to British goods.[66] The revenue collected under these duties amounted to one-fourth of the total customs receipts.

The loss of the principal British preferences with the repeal of the corn laws was perhaps the severest blow in the commercial history of the St. Lawrence colony. To most Canadians, British policy-makers seemed indeed determined to sever the economic ties of Empire. They claimed that great damage would be done to Canada by repeal of the corn laws, the canals would be so little used that tolls would not pay for them, and the fall in the price of wheat would reduce consumption of British manufacture.[67] The very prospect of repeal of the laws brought depression and called forth a flood of pleas for the retention of at least some part of the preferential system. In reply, the British claimed that they were not unmindful of the interests of the colony and that Canada's wheat would have an advantage over American wheat in that "her (Canada's) low tariff was so favourable to importation, and on that account powerfully tending to encourage her reciprocal commerce outward. . . ."[68] Such a free trade philosophy was cold comfort to Canadians. Instead of following a laissez faire policy they bestirred themselves to offset the repeal of the corn laws by raising a loan to complete the canals, seeking remission of the 3*s*. duty on foreign wheat for re-export, and agitating for changes in the Navigation Acts and for the retention of some preference.[69] The British were willing to have Canada remove its duty on foreign wheat and flour, but they would not grant Canada's request for a preferential duty of 1*d*. per quarter while charging others 1*s*.[70] The imperial authorities felt obliged to remind Canada that commercial preference was not the sole basis of the imperial connection and that a substantial preference on timber remained. They promised, however, to take up the question of reciprocity

[66] See previous footnote.

[67] P.A.C., Series G, vol. 460, p. 520, Cathcart to Gladstone, January 28, 1846.

[68] P.A.C., Series G, vol. 123, p. 365, Gladstone to Cathcart, March 3, 1846.

[69] P.A.C., Series G, vol. 461, p. 45, Cathcart to Gladstone, June 11, 1846.

[70] P.A.C., Series G, vol. 124, pp. 9 and 92, Gladstone to Cathcart, April 1 and 18, 1846.

with the United States which now began to gain support in Canada.[71]

In 1846 the colonial system based on preference was all but destroyed. Remnants like the Navigation Acts and the timber preferences remained, but their doom was certain. While the commercial interests of Montreal could see only ruin if means were not found to restore the artificially created advantages of the St. Lawrence route, the agricultural and industrial interests now perceived a greater opportunity for protection and the enhancement of their interests. What industries would be fostered by protection in the 1840's? Probably few, but industrial protection grew as a real political force during the fifteen years after 1846.

The policy of the second British Empire appeared indifferent to the development of manufacturing in the colonies, and industrially Canada had not advanced far by 1846. Upper Canada, or Canada West as it was now called, was primarily dependent upon agriculture with wheat and flour in the dominant role up to 1850. The milling industry had been stimulated by favoured entry to the United Kingdom for American wheat ground into flour in Canadian mills. The census of 1850–51 showed that Canada had 1253 grain mills, of which 1077 were propelled by water, and were probably small. Other manufacturing beginnings were of minor importance. Of 18 woolen mills in Lower Canada (Canada East) in 1850, 15 employed a total of 154 hands. Montreal in 1816 was the site of a small textile mill, and small hemp factories began operations in Upper Canada during the 1820's.

The *Montreal Gazette*, probably the first important early advocate of protection for Canadian industry, refers to some industrial beginnings in the Montreal region in the 1830's.[72] In 1846 there were four foundries in production in Montreal; a cotton factory at Chambly; a woolen factory in Canada West, probably at Coburg; a cotton factory at Sherbrooke; three paper mills in Canada East, and five or six in Canada West. The most extensive factory in Canada East was probably the iron works at the St. Maurice

[71] P.A.C., Series G, vol. 125, p. 42, Gladstone to Cathcart, June 3, 1846.

[72] June 16, 1831 and November 1, 1831.

forges near Three Rivers. Leather, stoves, nails, axes, and farm machinery were produced in small quantities in many scattered localities.[73] Industry was largely at the domestic stage of development, the principal work being done in the home or smithy. Carding and fulling mills, for example, were much more numerous than woolen mills.[74] The numerous half-employed population provided a good labour reserve for these small-scale industries. The protection afforded local industry by high transportation costs was of more assistance than the small incidental protection afforded by the revenue tariffs of the period, which rarely exceeded 2½ per cent, or at most 5 per cent, although textile manufactures were subject to 7 per cent ad valorem in 1842. Of course somewhat higher duties were imposed on certain manufactured goods by imperial tariffs.

Since party lines had not been clearly drawn in the Canadian legislature by 1846, the tariff had not developed far as a partisan issue. Concern over responsible government was paramount until 1849, driving all issues of a strictly economic nature into the background. The colonial tariff remained largely the work of the governor and the legislative and executive councils. Sydenham had stood for undiminished executive power, especially over fiscal policy, and Bagot retained control even when he invited the reformers, Baldwin and Lafontaine, to form a ministry in 1842. In 1843, however, the Assembly made its influence felt in the adoption of the agricultural tariff, and after Elgin assumed office in 1847 the Assembly or the group which could command a majority in that body became the tariff-maker. The end of the preferential system gave increased power over the tariff into the hands of the legislature. Absentee control of commercial policy was nearing its eclipse.

Whether by accident or intent the imperial acts of 1822, 1825, and 1830 which had opened Canada to foreign trade on a legiti-

[73] *Canadian Economist*, August 8 and September 12, 1846, quoted in Innis and Lower, *Select Documents*, pp. 301–305.

[74] Carding and fulling mills, 147 in Upper Canada, 193 in Lower Canada; woolen mills, 74 in Upper Canada, 18 in Lower Canada, by census of 1850–51.

mate, though far from tax-free or non-discriminatory, basis were important milestones on the road to tariff autonomy. Prohibition, ill-enforced and badly defined as it was, could hardly have been immediately followed by a comprehensive and judicious set of colonial duties. Imperial preferential duties, of necessity, came between. The free port system introduced in these acts was also the entering wedge against the Navigation Acts and for free access to Canadian ports by foreign shipping.

By 1846 the distinctly colonial or dependent phase of Canadian economic life was drawing to a close. Agrarian protectionists standing for greater independence were already in conflict with the interests of the more articulate and powerful merchants and shippers who wanted, above all, to preserve and strengthen the comparative advantage of the St. Lawrence corridor for Anglo-American trade. Even if the preferences contained in the corn law and the timber duties of 1842 had remained, internal forces in Canada would have created a demand for an autonomous commercial policy. As we shall see in the next chapter the growing revenue needs of the colony as well as the beginnings of industrial protectionism soon made control of the tariff a *sine qua non* of effective and stable government. Expansion in the colonial economy, and the growing sense of the need for political unity over a wider area, made tariff autonomy an end for which Canadian leaders were now willing to risk the displeasure of the British government.

# CHAPTER IV

## TARIFF AUTONOMY AND RECIPROCITY

SPEAKING IN TORONTO in 1863 Isaac Buchanan, long prominent in the political and industrial life of Upper Canada, declared:

> Those who can estimate the terrible difficulties if not impossibilities of such arrangements (eliminating colonial preferences) will begin to form some idea of the crime committed by the statesmen of England in making so serious a step in the dark as the adoption of the principle of Free Trade, or in other words of the contrary principle to that of Empire.[1]

Thus deeply did Canadian commercial leaders bear the injury inflicted by the discard of the old imperial system.

The repeal of the corn laws necessitated drastic reorganization of Canadian commercial policy. To improve their export position and cheapen transportation costs, Canadians wished to rid themselves of the Navigation Acts and obtain reciprocity with the United States. They also began to apply a policy of protection not only to agriculture but also to industry. The repeal of the Navigation Acts was fairly easily obtained. Reciprocity with the United States was somewhat more difficult and was destined to be short-lived. Between 1847 and 1866 the Canadian tariff was adjusted on four principal occasions, 1849, 1856, 1858, and 1859, each time in the upward direction. The policy of protection took firm root in the 1850's and played a continuous and increasingly important role in the commercial and industrial life of Canada. All the elements which were to enter into the tariff issue made their appearance, and most of the arguments pro and con were raised during this period.

[1] Isaac Buchanan, *Relations of the Industry of Canada with the Mother Country and the United States,* edited by Henry J. Morgan (Montreal: John Lovell, 1864), p. 21.

tiguity to their territory. This claim was not admitted by either the British or the Canadians.[5] The latter saw the possibility of using free navigation of the St. Lawrence in bargaining for reciprocity.[6]

What of the economic consequences of the repeal of the corn laws on the colonial economy? During 1847 and 1848 hard times were general. The collapse of the British railway boom and the reduction of preferences temporarily ruined the Canadian timber trade.[7] The price of wheat broke severely in 1847 with the result that only about 238,000 bushels were exported in 1848 as compared with 628,000 in 1847. Land values fell in the city and on the farm, while labour sought employment in the United States. The inability of the farmer to take advantage of the higher prices across the border brought demands for higher agricultural tariffs for Canada. The duty on wheat entering the Republic was 25¢ a bushel, and transportation costs in addition produced a price spread in excess of 30¢ between the neighbouring cities in the two countries. In 1847 the average price of wheat in Toronto was 89¢ and in Rochester $1.22 per bushel. The price differential on flour averaged 88¢ per barrel.[8] No Canadian tariff could correct this situation which had resulted from Canada's surpluses and American tariffs, but economic facts have seldom impressed those hard hit by depression. By this time American manufactures were making inroads on the Canadian market which the British had once enjoyed unchallenged. A mixture of wool and cotton called satinet, made in America, filled the demand for that article in Canada. Though Manchester, Glasgow, and Belfast still controlled the market for cottons, American iron tools had completely superseded goods from Sheffield and Birmingham.[9]

But industrial development was now beginning in Canada, and

[5] P.A.C., Series G, vol. 129, p. 78, Grey to Elgin, July 31, 1847.

[6] P.A.C., Series G, vol. 461, p. 126, Elgin to Grey, March 26, 1847.

[7] Innis and Lower, *Select Documents*, p. 258.

[8] "Annual Report of Toronto Board of Trade for 1847" in *Toronto Globe*, January 8, 1848, quoted in Innis and Lower, *Select Documents*, pp. 355–356.

[9] *Montreal Gazette*, July 20, 1839, quoted in Innis and Lower, *Select Documents*, p. 243.

industrial protectionism took root in the transition period between colonial status and full autonomy in tariff-making. Spokesmen for the small industrial centres of Canada West urged that the revenue duties in contemplation for 1847 should be levied principally on competing imports, while partially finished goods for further manufacture in Canada should enter free of duty.

The beginnings of protectionist sentiment was not at all pleasing to the imperial government; a protective measure had been disallowed in 1845. Though the repeal of corn laws and the passage of the enabling act nominally conferred autonomy upon Canada, the Colonial Office showed little tendency to maintain a hands-off attitude. Shortly after the passage of the enabling act, Lord Grey advised the Canadian legislature to establish a tariff solely to raise revenue with the smallest pressure upon the consumer and the least possible interference with the distribution of capital and labour.[10] Grey expressed these views on colonial autonomy:

> When Parliament, after a protracted discussion of many years, finally determined upon abandoning the former policy of endeavouring to promote the commerce of the Empire by an artificial system of restrictions . . . it did not abdicate the duty and power of regulating the commercial policy not only of the United Kingdom but of the British Empire. The common interest of all parts of that extended Empire requires that its commercial policy should be the same throughout its numerous dependencies; . . .[11]

When Elgin was despatched as governor his instructions declared that the colonies might and should repeal differential duties in favour of British products. On the other hand, the Colonial Office also recommended uniform duties and customs services in the various provinces of British North America after the model of the *Zollverein.*[12]

[10] P.A.C., Series G, vol. 126, p. 67, Grey to Cathcart, September 17, 1846.

[11] Henry George, 3rd Earl Grey, *The Colonial Policy of Lord John Russell's Administration,* 2 vols. (London: Richard Bentley, 1853), I, 281–282.

[12] P.A.C., Series G, vol. 126, p. 380, Grey to Elgin, December 31, 1846.

The Canadian legislature paid some heed to these suggestions in drafting the tariff of 1847. All previous tariff acts were repealed, and uniform new duties were levied upon imports from all countries (10 & 11 Vict., c. 31, Provincial). The suggestion of a *Zollverein* bore fruit in an offer of reciprocity to the other North American colonies. This offer was held out to the neighbouring colonies until 1850 when concurrent legislation in the colonies provided for the removal of duties on a list resembling that of the Reciprocity Treaty of 1854 (13 & 14 Vict., c. 3, Provincial). Even then, the Colonial Office objected to reciprocity unless the privilege was extended to all the British North American colonies or to those who were willing to subscribe to the conditions of the agreement because the imperial government was opposed to any discriminatory duties.[13]

After paying this much heed to the wishes of the imperial government, in 1847, the Canadians struck out on their own. In May 1846 the 3*s*. duty on American wheat imposed in 1843 had been repealed (9 Vict., c. 1, Provincial) when the Canada corn law became a dead letter. Wheat remained free under the new tariff, but other grains bore duties at about the 1843 levels. Specific duties on livestock were raised 2*s*. to 5*s*. per head. Flour, one of the principal manufactured products of the colony, dutiable at 2*s*. per barrel under the imperial customs, now bore 3*s*. a barrel. Revenue taxes on coffee and spirits remained at about the 1839 provincial duty levels. The duty on refined sugar of £1 7*s*. 6*d*. per hundredweight may have given some incidental protection to the new sugar refining industry in Canada, though other grades of sugar were also heavily taxed. A new departure was made with compound duties of 10 per cent ad valorem plus a specific duty of 1*s*. a gallon on wines. To reduce the amount of smuggling of tea, which the authorities charged was most flagrant, the duty was

[13] P.A.C., Series G, vol. 138, p. 145, Grey to Elgin, March 12, 1851. More discussion of intercolonial reciprocity will be found in the next chapter. In 1858 Canada proposed interprovincial free trade in all products, manufactured as well as natural, and the formation of a general customs union. In 1861, the imperial government announced that it had no objection to such a policy (P.A.C., Series G, vol. 166, p. 333, Newcastle to Monck, November 5, 1861). See next chapter.

reduced from 3*d*. to 2½*d*. per pound. Smuggling remained unchecked, however. The highest duties, ranging up to 20 per cent, were revenue levies on luxury products. Duties on glass and silk manufactures were reduced to 7½ per cent as compared with 15 per cent under the imperial duties. Seven and one-half per cent was the general rate covering most textile products, hardware, and manufactures of wood. Boiler plate, railway bars, pig iron, ore, coal, and metals in general entered at 1 per cent, but iron wire paid 5 per cent. Threshing machines and fanning mills were charged 12½ per cent, and other farm machinery 10 per cent ad valorem.[14] The basis for levying ad valorem duties was the invoice value at the place from which the goods were imported plus a margin of 10 per cent. This latter provision of course increased the actual ad valorem duty above the nominal rate in the tariff. Previously the actual price of the imported goods at the point of export had been accepted. The Canadian method of determining value for duty at the point of export, rather than at destination, favoured Britain over the United States since British transportation costs to Canada were higher than American.

The act went into operation on January 5, 1848. Despite the British government's sanction of the move British manufacturers were quick to protest against the removal of all preferences and the upward tendency in some of the Canadian duties. Their opinions were echoed by the Colonial Office. It was pointed out that, while the West Indies and Australia were content with revenue duties of 3½ per cent, Canadian rates in 1847 had reached four times that level.[15]

The liberal leadership of Baldwin and Lafontaine, with Hincks in charge of finance, raised the general rate to 12½ per cent in 1849 (12 Vict., c. 1, Provincial). A protectionist meeting in Montreal early in 1849 had complained that the 7½ per cent level

[14] The Council of the Toronto Board of Trade objected to the duties on farm machinery and the generally higher rates and would have preferred the disallowance of the bill (Innis and Lower, *Select Documents*, pp. 363–365).

[15] P.A.C., Series G, vol. 130, pp. 165 and 254, Grey to Elgin, February 11, 1848, and March 6, 1848. Also, William Weir, *Sixty Years in Canada* (Montreal: John Lovell and Son, 1903), pp. 98–104.

was inadequate. Compound duties of 12½ per cent plus specific duties were applied to sugar, tea, coffee, molasses, tobacco, salt, and whiskey, all of which had formerly been on the specific duty list. The specific portions of the duties ranged up to 14*s*. per hundredweight for sugar and 4*s*. 8*d*. per hundredweight for coffee. Wines and spirits at 25 per cent plus small specific duties, and semi-tropical spices at 30 per cent were the highest duties on the list. The general rate for agricultural products was 20 per cent, however. The 1 per cent levy of 1847 on metals, iron, ores, and coal was now raised to 2½ per cent. Purely specific duties were entirely abolished in 1849. The principle of valuing goods for duty at point of export was changed, and the cash value in the principal markets of the exporting country was substituted. The practice of adding 10 per cent to the price to arrive at the value for duty was discarded, as it had proved unpopular with British exporters.

Canadian merchants hoped in 1847 and 1849 that by imposing high duties on British goods the mother country might be led to retain the remaining preferences on colonial timber and grains. (Preferences were not entirely removed on grain until 1849, or on timber until 1860.) But the British government, regretful that her colonies were not following her free trade example, refused to entertain any appeals for a reconsideration of her own tariff policy. The Colonial Office, prodded by British industrialists, made it clear that the increases in rates would not have been sanctioned had they been really protective.[16] It is fairly certain in any case that the burden of the Canadian tariff in 1847 and 1849 was largely on the Canadian consumer rather than on the British manufacturer. The latter continued to enjoy most of the colony's trade in finished goods because of the pre-eminence of British manufacturing, despite the infiltration of American goods noted above.

When the colonies were cut adrift economically by the mother country in 1846, one of their hopes was to obtain closer commercial relations with the United States. To the British, also, reci-

[16] P.A.C., Series G, vol. 135, pp. 96–97, Grey to Elgin, October 11, 1849.

procity with the United States seemed the best solution for the colony even though it meant obtaining for one portion of the Empire a preferred place in the markets of a foreign power. By broadening the treaty to include the Maritime colonies and confining it to natural products, this inconsistency was to be mitigated. Upon the repeal of the corn laws, the imperial government instructed the British minister at Washington to take up the question of reciprocity with the United States.[17] Nothing came of his efforts in 1846 and 1847.[18] In 1848 the Baldwin-Lafontaine ministry, under the influence of Francis Hincks and William Hamilton Merritt, bestirred itself to obtain reciprocity with the United States by joint legislation. A bill to establish free trade between the United States and British North America was also placed before Congress, but that body was quarrelling over the slavery issue and took no action.[19] In the midst of these discussions Canadians were reminded that their tariff autonomy was not complete. The Canadian bill to secure reciprocity was criticized in Britain because of the possibility that it might establish a differential duty against Great Britain on iron ores. Such a measure would not be confirmed, the Colonial Office announced.[20] In fact, the British intended reciprocity to be limited to agricultural products and certain raw materials "because the free admission of manufactures and of various other articles could not be permitted either into the United States or into the British Provinces without interfering with the Revenue and Commercial policy of both States." [21] The bill which the Canadian legislature had passed provided for the reciprocal free admission of agricultural, mineral, and timber products from the United States (12 Vict., c. 3, Provincial).

[17] P.A.C., Series G, vol. 125, p. 163, Gladstone to Cathcart, June 27, 1846.

[18] P.A.C., Series G, vol. 125, p. 338, Grey to Cathcart, August 11, 1846, and *ibid.*, vol. 128, p. 497, Grey to Elgin, June 22, 1847.

[19] P.A.C., Series G, vol. 132, p. 39, Grey to Elgin, August 10, 1848, and *ibid.*, vol. 133, p. 244, Grey to Elgin, March 31, 1849.

[20] *Journals of Legislative Assembly of Canada*, 1856, App. No. 28, Grey to Elgin, December 21, 1848.

[21] P.A.C., Series G, vol. 135, pp. 458–459, Grey to Elgin, November 17, 1849.

Discouragement over the ending of preferences and the failure to get reciprocity, coupled with anger over Elgin's refusal to veto the "rebellion losses" bill, led to the annexationist movement that sprang up in Montreal in the summer of 1849. The coming of responsible government was weakening the power of the privileged members of the governor's Council and fanning the flame of discontent with the imperial connection among the die-hard conservatives of the Family Compact school. These had the most important stake in the commerce of Canada, and to placate them for loss of preferences and political control Britain tried to broaden the field of intercourse of the colony. Though the annexationist movement began among the commercial classes, Elgin warned that it might spread to manufacturing and agricultural interests unless Canadians could gain admission to the United States market.[22] Since there seemed little possibility of obtaining reciprocity by concurrent legislation he hoped that Britain could attain the desired end by treaty.[23]

The annexationist movement and the delay in obtaining reciprocity put the protectionists in a favourable position. Agricultural protection had been in evidence before the tariff of 1843; industrial protection appeared by 1847, but during the 1850's protectionist opinion was to gain important ground in number of adherents and in the tariff itself. Even merchants joined the protectionist cause.[24] The building of the first links in a railway system turned the attention of Canada inward where new industrial interests were rising to political power. Though the timber trade with Britain declined after 1846, lumber mills and manufacture of secondary wood products were still of some importance. The advancement of farming in Canada West led to further exploitation of hardwood resources and the beginning of a furniture industry. Farm machinery factories were springing up, and a few textile mills produced crude materials for home use.

[22] P.A.C., Series G, vol. 461, p. 357, Elgin to Grey, June 15, 1849.
[23] P.A.C., Series G, vol. 461, p. 367, Elgin to Grey, July 2, 1849.
[24] Weir, *Sixty Years*, pp. 98–104; and *The Weekly Globe*, Toronto, September 17, 1852.

Both the economic prospects and the political spirits of the colony rose after 1850. British capital moved overseas to offset some of the effects of the overthrow of the old imperial system as Baring Brothers and Glyn, Mills, and Company became interested in Canadian railways, particularly the Grand Trunk. Manufacturing was increasing in Canada West. The great principle of ministerial responsibility had been won, and the political problems of the colony were not aggravated. Reciprocity with other British North American colonies was attained as discussed in the next chapter.

There remained points of difference however between Canada and the United Kingdom. Canadians continued to try—without success, as in 1847—to get the British to remove their duties on butter, cheese, corn, flour, fruit, timber, and fish. On most of these items, Canada still enjoyed a preference.[25] The British attitude was that the argument for the abolition of their duties, which were mainly for revenue, could be used equally well for the abolition of Canadian duties with the consequent upsetting of the colonial revenue.[26] In 1851 the British reduced their duties on foreign timber, further narrowing the preference, despite the pleas of Canada. Free trade arguments were used to justify their action and to show that Canada would not be injured. Lord Grey wrote:

> that in a country possessing such great natural advantages as Canada, and of which the population and capital are still so inadequate to the full development of these resources, there can be no occasion for endeavouring by artificial regulations to extend the field of employment, and that the permanent prosperity of the province will be best promoted by allowing enterprise and labour to flow in their natural channels, instead of seeking to divert them to branches of trade dependent for their success upon the uncertain and factitious encouragement accorded by protective duties.[27]

In 1853 there was a minor revision of the tariff. The duties of 12½ per cent plus a specific levy of 14*s.* a hundredweight on re-

[25] P.A.C., Series G, vol. 141, p. 320, Pakington to Elgin, July 16, 1852.

[26] P.A.C., Series G, vol. 129, p. 273, Grey to Elgin, October 13, 1847.

[27] P.A.C., Series G, vol. 139, p. 119, Grey to Elgin, August 5, 1851.

fined sugar were reduced by 4*s.* (16 Vict., c. 85, Provincial); partially refined sugar and molasses duties were also reduced by proportionate amounts. These revisions, in part, met the objections of British manufacturers who had complained of the protective incidence of these duties, but even after 1853 the British continued to complain of Canadian sugar duties on the ground that they were protective. The other revisions of 1853 were upward. Duties on wines were established at the uniform level of 6*d.* a gallon plus 30 per cent. This represented a 5 per cent advance over 1849. Rubber, copper bars, iron in a semi-manufactured state, cables, type, ink, and some minor semi-manufactured products made up the 2½ per cent list.

But the most immediate problem which now interested Canada was reciprocity with the United States. In 1851 Hincks had gone to Washington in pursuit of a reciprocity agreement but had failed to reach his objective. The Canadian government then laid out a program of action in case the United States continued its do-nothing policy. This provided for heavier canal tolls on American vessels and the imposition of an extra duty on manufactured goods—cottons, woolens, iron, hardware, leather, paper, and glass—when imported by inland navigation.[28]

In 1854, by the skillful diplomacy of Elgin in Washington, and by giving the Americans fishing rights in British North American coastal waters and navigation rights on Canadian canals and the St. Lawrence on the same terms as Canadian vessels, negotiations for a reciprocity treaty were successfully completed. The negotiation of the Reciprocity Treaty has been the subject of searching inquiry by students of diplomatic and economic history.[29] No attempt to duplicate their efforts will be made here.

Although working as a British diplomat Elgin was a worthy representative of the Canadian point of view, and the treaty was truly and solely North American in its economic and political re-

[28] P.A.C., Series G, vol. 462, pp. 123–130, Elgin to Colonial Office with enclosures, Memo of Inspector-General, September 23, 1852.

[29] See especially Donald C. Masters, *The Reciprocity Treaty of 1854* (New York: Longmans, Green & Co., 1937).

sults. It was the first real venture of the scattered colonies, acting as a unit, in commercial relations with either a foreign or an Empire country, and thus gave an impetus to the federation which occurred at its abrogation. By abolishing tariffs on all important natural products on both sides of the border it created a free trade area in the northern half of the American continent within which the principle of comparative advantage could operate. Based on trade for 1854, £2,180,085 of dutiable imports of Canada were placed on the free list.

Grain now moved from Canada West to the United States to be ground into flour and then sometimes found its way to Nova Scotia or New Brunswick in exchange for fish. Maritime coal was carried into New England, and Pennsylvania coal to Canada. The products of farm, forest, quarry, and the sea moved freely during a period when the general tariff in both countries was rising to new levels.[30] For thirty years after the abrogation of the treaty in 1865 the reciprocity period was regarded as a golden age for Canadian foreign trade.

The constitutional implications of the treaty perhaps deserve passing attention. Though the British had striven manfully to obtain reciprocity for the North American colonies, they were not prepared to extend the principle further. In 1855 William Hamilton Merritt, chairman of a committee of the Legislative Assembly of Canada, made an unauthorized proposal for the mutual abolition of customs duties upon products of Canada, the West Indies, and other colonies in the Caribbean region. In answer to an inquiry by British Guiana the Lords of Trade objected "to the proposal as setting up a discriminatory system of tariff preferences within the empire, which would be injurious to the interests of consumers and inconsistent with the policy of free

[30] Placed on the free list by reciprocity were: grain, flour, breadstuffs of all kinds, smoked and salted meats, cotton, wool, seeds and vegetables, fruits, fish and their products, poultry, eggs, undressed hides, furs, skins, stone and marble unworked, salt, butter, cheese, tallow, lard, horses, manures, metallic ores of all kinds, coal, pitch, tar, turpentine, ashes, timber and lumber of all kinds, plants, trees, pelts, rice, corn, brick, gypsum, grindstones wrought and unwrought, dyes, flax, hemp, tow, wrought or unwrought, tobacco.

trade."[31] In July 1856 Canada was requested to make all natural products listed in the Elgin-Marcy treaty free regardless of origin. Otherwise the Reciprocity Treaty would mean discrimination and would tend to encourage other proposals at variance with free trade policy.[32] Steps to comply appear in the tariff act of 1856.

Reciprocity did not impede the gathering strength of protection in Canada. In general, the tariff policy during the first five years of the reciprocity period was incidental protection adopted as a formal program. Late in 1854 (18 Vict., c. 5, Provincial) the specific part of the duty on refined sugar was raised from 10*s.* to 12*s.* a hundredweight, but the ad valorem duty of 12½ per cent was removed. Sugar duties had long been subjects of complaint, and these were no exception. The Treasury refused to sanction them because they were unjust to British refiners and Canadian consumers.[33] The 2½ per cent duty on iron and steel, metals, rubber, wool, cordage, and partially processed goods was removed for the duration of reciprocity, and the 20 per cent duty on meats, dairy products, flour, and grain already free under the treaty was likewise repealed. Many specific duties were substituted for the ad valorem and compound duties of 1849 and 1853. This act began the practice of charging a graded set of duties on a single commodity—in this case, wines—the higher duty to apply to the more expensive varieties of the product.

In the following year there was perceptible rise in tariff rates (19 Vict., c. 10, Provincial). Purely specific duties were raised on whiskey (7½*d.* a gallon), tea (2½*d.* a pound), and spirits (4*s.* a gallon). The general list, dutiable since 1849 at 12½ per cent, was increased to 15 per cent, the rate of the imperial tariff of thirty years before. Refined sugar was raised from 12*s.* to 14*s.* a hundredweight, and the duty on raw sugar was raised only from 6*s.*6*d.* to 7*s.*6*d.* a hundredweight, thus widening the domestic industry's margin of protection. British refiners continued their protests, but the British government finally waived its objections

[31] P.A.C., Series G, vol. 149, p. 57, Circular, August 11, 1855.
[32] P.A.C., Series G, vol. 151, p. 112, Labouchere to Head, July 15, 1856.
[33] P.A.C., Series G, vol. 148, pp. 150–151, Russell to Head, May 25, 1855.

to the act.[34] Duties at the 5 per cent level were imposed on certain types of iron and steel, paper, and some manufactured wood products. The act of 1856 continued the practice of charging a graded set of duties on wines. This differentiation of rates was carried further in 1856 and 1859.

The stability of the trend in tariff rates is remarkable in view of the chaotic state of politics during this period. After the defeat of the great Baldwin-Lafontaine ministry in September 1854 no combination of ministers was long able to maintain the confidence of the multi-party Assembly. The Conservatives MacNab and Morin, MacNab and Taché, Taché and John A. Macdonald, John A. Macdonald and Cartier, and the Radicals Brown and Dorion held office in succession. Finally in August of 1858 Macdonald and Cartier returned to form a ministry that was to remain in power for nearly a full four years. In charge of the financial affairs of the colony were William Cayley and later Alexander T. Galt, the architects of Canada's first tariff broad enough in range to merit the term protective.

The Cayley tariff of 1858 (21 Vict., c. 2, Provincial) and the Galt tariff of the following year (22 Vict., c. 2, Provincial) raised Canadian duties to the highest level they were to reach prior to 1879. Under the former, duties on manufactured or processed goods were increased to a much greater extent than on raw materials. Roasted coffee was dutiable at 4¢ and green coffee at 1¢ a pound. Tobacco valued at over 40¢ a pound had a specific duty of 10¢, and that valued at 20¢ a pound had a duty of 5¢, while cigars were charged 80¢ a pound. The general list entered at 15 per cent ad valorem as in 1856. Elaboration of the various listings under the Cayley tariff is unnecessary as the entire schedule of duties was overhauled the following year. Sufficient to say that, in 1858, broad classes of commodities were grouped under headings of 5, 20, and 25 per cent; the last levied on products manufactured from leather, such as boots, shoes, and harness. The free list included articles covered, in the main, by the Reciprocity

[34] P.A.C., Series G, vol. 151, p. 9, Labouchere to Head, June 9, 1856, and vol. 153, p. 96, Labouchere to Head, January 30, 1857.

Treaty. In the statute there appeared a provision for the refund of all or part of any duties collected on goods used in the preparation of Canadian exports, the amount to be determined by decision of the governor in council.

Galt himself, tracing the trend in tariffs up to 1859, declared that from 1841 to 1848 the average ad valorem rate of duty on all imports was about 10¼ per cent and the free goods only 2¼ per cent of all imports. Between 1849 and 1854 the duty was about 13¼ per cent and free goods 7 per cent. Between 1855 and 1858 the duty was 10¼ per cent while the free goods jumped to 29 per cent because of reciprocity. For 1858, under the Cayley tariff, the average duty was 12½ per cent and the free goods amounted to 29 per cent of the total.[35] (See Table 2.) In debate on the tariff of 1859 the expanded free list was Macdonald's defense for higher duties.

An impression of the level of the tariff in Canada after the Galt tariff of 1859 went into operation may be obtained from Table 3. The change from the use of the English to the decimal currency system and also the complete adoption of ad valorem duties (except for whiskey which continued to have a specific duty of 18¢ per gallon) make a comparison with former duties difficult. The general tariff was now 20 in place of the Cayley 15 per cent, and this 5 per cent increase was typical throughout the range of manufactures. The new 10 per cent bracket included yarns, jewelry, and cement, in addition to metals and partially manufactured goods which traditionally had been in the lowest (2½ per cent) bracket. The 25 per cent list now applied to clothing and wearing apparel as well as leather manufactures, and most of the revenue duties on roasted coffee, spices, and the like were now 30 per cent. Refined sugar was dutiable on a declining scale from 40 per cent in May 1859 to 15 per cent by July 1862, and tea and green coffee from 15 per cent to 5 per cent over the same period. Taxes on liquors (100 per cent) and cigars (40 per cent) were expected to assist in meeting the deficits of the Macdonald-Cartier adminis-

[35] Alexander T. Galt, *Canada, 1849–1859* (Quebec: Canada Gazette Office, 1860), pp. 32–33.

tration, the deficit for 1858 amounting to £500,000. The level of the tariff after the Galt tariff was adopted may be gauged from Table 3.

Three questions arose out of the enactment of these higher duties in 1858 and 1859: first, that of motivation; second, the re-

TABLE 2

AVERAGE AD VALOREM RATES OF DUTY, 1841-1859[a]

| Year | Imports (£1,000) | Per Cent of Imports Free | Average Ad Valorem Rate of Duty: % on Dutiable Imports | Average Ad Valorem Rate of Duty: % on Total Imports |
|---|---|---|---|---|
| 1841 | 2,694 | 5.4 | 8.9 | 8 4 |
| 1842 | 2,589 | 3.3 | 11.1 | 10.8 |
| 1843 | 2,421 | 0.6 | 10.1 | 10.0 |
| 1844 | 4,331 | 1.9 | 10.4 | 10.2 |
| 1845 | 4,191 | 1.4 | 10.9 | 10.7 |
| 1846 | 4,516 | 1.4 | 9.5 | 9.3 |
| 1847 | 3,610 | 2.1 | 11.7 | 11.5 |
| 1848 | 3,191 | 2.9 | 10.8 | 10.5 |
| 1849 | 3,003 | 9.0 | 16.3 | 14.8 |
| 1850 | 4,246 | 6.9 | 15.6 | 14.5 |
| 1851 | 5,359 | 7.9 | 14.9 | 13.8 |
| 1852 | 5,072 | 5.8 | 15.5 | 14.6 |
| 1853 | 7,995 | 5.6 | 13 6 | 12.9 |
| 1854 | 10,132 | 6.9 | 13.0 | 12.1 |
| 1855 | 9,022 | 28.8 | 13.7 | 9.8 |
| 1856 | 10,896 | 27.5 | 14.2 | 10.3 |
| 1857 | 9,658 | 31.5 | 14.5 | 10.0 |
| 1858 | 7,269 | 28.7 | 16.3 | 11.6 |
| 1859 to Sept. 30th | 6,574 | 29.1 | 19.1 | 13.5 |

[a] Source: Report of Inspector General's Office. Quebec 22nd Oct. 1859. Quoted in Buchanan, *Industry of Canada*, p. 337.

action of Great Britain or specifically of her manufacturers; and last the effect on official opinion in the United States and thus on the future of the Reciprocity Treaty.

Was protection the only motive for the tariff increases of 1858 and 1859? Not according to statements of responsible officials in the government. In 1857 a committee of the Canadian legislature advocated protective principles for Canada, but Cayley, in

his budget speech of 1858, did not openly avow protection, rather he stressed the need for revenue to service debts incurred for public works, partly as advances to municipalities which were already beginning to default.[36] Revenue needs were grave, for Canada had been obliged to borrow £850,000 in 1857. Though Cayley thought Canada had escaped the worst consequences of the depression of 1857, he noted the marked decline in imports after the first quarter of that year. By increasing the excise on whiskey,

TABLE 3

VALUE OF CANADIAN IMPORTS AND DUTIES COLLECTED THEREON, NINE MONTHS TO SEPTEMBER 30, 1859[a]

*Value Figures in $1,000*

| | VALUE OF IMPORTS | | DUTY COLLECTED | |
|---|---|---|---|---|
| RATE OF DUTY | Amount | % of Total | Amount | % of Duty Collected |
| 5 and 10% | 1,680 | 6.4 | 161 | 4.5 |
| 15% | 1,723 | 6.6 | 258 | 7.3 |
| 20% | 10,785 | 41.0 | 2,157 | 60.7 |
| 25% | 217 | .8 | 54 | 1.5 |
| Tea, sugar and molasses (specific and over 25%) | 3,143 | 12.0 | 579 | 16.3 |
| Other articles | 1,087 | 4.1 | 346 | 9.7 |
| Free goods | 7,662 | 29.1 | | |
| Total | 26,297 | 100.0 | 3,555 | 100.0 |

[a] Source: Inspector General's Office. See Buchanan, *Industry of Canada*, p. 338.

he anticipated a substantial increase in revenue. But he did not expect any material overall increase in revenue from the tariff adjustments. Instead, he said the free list would be lengthened to aid domestic manufacturers and "the encouragement of commerce and the incidental protection of manufacturers" would be the objectives.[37] In Canada there was little organized opposition to higher duties in 1858 and 1859. Although each year the multi-

[36] *Sessional Papers of the Legislative Assembly of the Province of Canada*, 1857, App. No. 47.

[37] *Montreal Herald and Daily Commercial Gazette*, June 22, 1858.

party opposition—led by George Brown, Dorion, and others—moved for retrenchment in spending rather than increased duties, it achieved nothing.[38] Indeed in 1858 a committee of the Legislature had gone on record in favour not only of complete free trade with British North America but also for reciprocity with the United States in manufactures, shipping, and the coasting trade.[39]

Business was alive, however, to the interrelationship between prosperity and government-supported spending on public works. It was thought that the completion of such a venture as the Grand Trunk was vital and that if government support for municipal and railway loans was needed it should be forthcoming. Furthermore, there was organized pressure for protection. Protectionist sentiment in the 1840's has already been mentioned. As early as 1852 a convention of boards of trade in Montreal favoured protection.[40] By that time, Hincks himself was opposed to free trade even with British North America.[41] In 1858 an "Association for the Promotion of Canadian Industry" was organized in Toronto. The moving spirit in this society was Isaac Buchanan, long a critic alike of free trade and "sound currency." The depression of 1857–58 lent support to Buchanan's arguments, as the burden of debt became increasingly heavy. The Association dwelt on the infant industry argument but denied any intention of urging protection for industries not adapted to Canada. In this they were following the same line as contemporary American protectionists, such as Horace Greeley and Henry C. Carey. Canadian protectionists, including the Tariff Reform Association of Montreal, met at Toronto on April 14, 1858 in the St. Lawrence Hall Convention and passed a series of protectionist resolutions.[42] These advocated free admission or very low duties on raw materials,

[38] *Journals of Legislative Assembly of Canada,* 1858, p. 898; and 1859, p. 245.

[39] *Sessional Papers,* vol. 20, 1862, pt. 4, No. 23, unpaged (Galt on Reciprocity).

[40] *Journals of Legislative Assembly of Canada,* 1852–1853, p. 136.

[41] See next chapter, p. 118.

[42] This meeting led to a complaint by the mayor of Sheffield, supported by the Colonial Secretary, Stanley, who hoped that the imposition of such a heavy rate of duty (25 per cent) on wood, iron, tin, etc., could be prevented. (P.A.C., Sèries G, vol. 157, p. 227, Stanley to Head, May 25, 1858.)

partially processed goods, and products not grown in Canada, such as tea and coffee. Merchandise of a luxury character not likely to be produced in Canada was to be taxed 15 or 20 per cent, but manufactures competing with Canadian industries were to be charged 25 per cent. The Convention presented to the government a resolution declaring that the low tariff was preventing the development of the natural resources of the colony as well as injuring Canada as a field for immigration.[43]

The tariff of 1859 met these recommendations only in part. Partially processed goods such as tubing and pipe were taxed 10 per cent instead of 2½ per cent as the protectionists wished. Tropical products were very heavily taxed; yarns and textiles were both charged 10 per cent, instead of the desired 20 per cent which was to apply to textiles alone; clothing was charged 25 per cent—the rate urged had been 30. Thirty per cent was also levied on manufactures of leather, long a highly taxed article. In other words, while some of the rates were undoubtedly high enough to be protective, Canada was still imposing its highest duties on revenue items such as liquors, tobacco, coffee, and spices rather than on manufactured articles.

It seems fair to accept Galt's insistence in 1859 that protection was only an incidental motive in the higher duties of that year.[44] Originally a protectionist, Galt leaned toward free trade in 1859 because of the British example.[45] Practically speaking, he had to raise some revenue on manufactured articles because duties on articles of general consumption in excess of United States duties would only encourage smuggling.

Galt described his course frankly,

> The policy of the present Government in readjusting the tariff has been, in the first place, to obtain sufficient revenue for the public wants; and, secondly, to do so in such a manner as would most fairly distribute

[43] Buchanan, *Industry of Canada*, pp. 486–489.

[44] A. T. Galt, *Report on Reciprocity Treaty*, 1862, *Sessional Papers*, vol. 20, 1862, pt. 4, No. 23, unpaged.

[45] O. D. Skelton, *Life and Times of Sir Alexander Tilloch Galt* (Toronto: Oxford University Press, 1920), p. 271.

the additional burthens upon the different classes of the community. . . .

But, he added:

. . . it will undoubtedly be a subject of gratification to the Government if they find that the duties absolutely required to meet their engagements should incidentally benefit and encourage production, in the country, of many of those articles which we now import.[46]

When Galt had to defend the act against British criticism, he stressed the fiscal need of the colony and the unproductiveness of direct taxation as an alternative to the customs:

In Great Britain it may be possible to adjust the taxation so as to make realized property contribute more than it now does to the wants of the State; but in a country like Canada no such resource exists, and it would be perfectly hopeless to attempt to raise the required revenue by direct taxation—we neither possess the required machinery to do it, nor are the people satisfied that it is the more correct principle.[47]

In his lengthy and at times heated correspondence with the Colonial Office, Galt pointed to the large investments of British capital in government guaranteed railways and municipal undertakings. The solvency of such enterprises and investments could be assured only by a higher tariff and more revenue. Galt maintained that the successful completion of government financed and guaranteed public works, such as canals, roads, and railroads, would help both Canadian consumer and British manufacturer. Duties that were spent to reduce transportation costs were unmistakable benefits as they cheapened and increased imports and raised the prices Canadians received for their exports to Britain.[48]

. . . if by an increase of five per cent on the duty a reduction of ten per cent on the other charges (transportation and handling costs) were

[46] Galt, *Canada, 1849–1859*, p. 33.
[47] Galt, *Canada, 1849–1859*, p. 39.
[48] Galt, *Budget Speech of 1862*, pp. 11–12.

produced, the benefit would accrue equally to the British manufacturer and the (Canadian) consumer, . . .[49]

In his support of the 1859 tariff, John A. Macdonald mentioned the protective motive, admitting that duties had been raised on manufactures that could be produced in Canada. He held, however, that the extension of the free list (resulting from the Reciprocity Treaty) had removed from the shoulders of the taxpayers more than the tariffs of 1858 and 1859 had imposed.[50] The proportion of free to total imports had indeed increased in 1855 by 22 per cent. But the average ad valorem rate of duty on all imports (ratio of duty collected to total imports) fell little more than 2 per cent and in 1859 had practically regained its pre-reciprocity level. The rate of duty on dutiable imports reached 19 per cent in 1859 compared with 13 per cent in 1854. (See Table 2.)

After 1859 war taxation in the United States gave Galt the opportunity to propose changes in the tariff to make it more clearly a revenue measure. With mounting tariffs and excises in the United States, Canada could tax spirits, tobacco, and tropical products more heavily without danger of excessive smuggling and lower the rates on manufactured goods. Galt had found that the increase in rates in 1859 had brought a decrease in consumption. Furthermore, he thought that lower duties on manufactures would soothe American and British objections to Canadian policies and would also attract immigrants.[51] The fall of the ministry prevented Galt's whole plan from being carried out; the duties on tea, coffee, sugar, and whiskey were raised in 1862; but those on manufactured goods were not lowered. Thus the 1859 level of protection remained unchanged (25 Vict. c. 4).

As we have already seen, the British government was not yet satisfied to adopt a "laissez-faire" attitude toward the apparent endorsement by a colony of those principles of commercial policy

[49] Galt, *Report on Reciprocity Treaty, Sessional Papers,* 1862.

[50] Joseph Pope, *Memoirs of Sir John A. Macdonald,* 2 vols. (Ottawa: J. Durie and Son, 1894), I, 208–209.

[51] Skelton, *Galt,* pp. 275–277.

upon which the United Kingdom had turned its back a dozen years before. In this case, British opposition was ostensibly founded chiefly on the grounds of economic principle. The Sheffield Chamber of Commerce, which had been stirred to protest by the St. Lawrence Hall Convention, was deeply moved by the Galt tariff of 1859. Pointing out that numerous hardware plants had sprung up in Canada under the rising tariffs, they called upon the imperial government to discountenance "a system condemned by reason and experience, directly contrary to the policy solemnly adopted by the Mother Country, and calculated to breed disunion and distrust between Great Britain and her Colonies." [52] Manufacturers of Sheffield held that the contiguity of the American producer to the Canadian market gave him a natural preference of 12½ per cent (an estimate doubted by Galt). In addition, they held, the inefficiency of Canadian customs collections along the American frontier opened the door to contraband and thus gave the Americans great added advantages. In transmitting the Sheffield Memorial, Colonial Secretary Newcastle expressed his agreement with it. Though he decided that he had no other course than to recommend the Queen's assent to the 1859 tariff, he regretted that the experience of England with protection and the benefits of free trade should be lost sight of in Canada.[53] To answer these complaints, Galt used the fiscal and economic arguments described above. But he also took issue with Newcastle on constitutional grounds. He replied:

> . . . the Government of Canada, acting for its legislature and its people, cannot through those feelings of deference which they owe to the Imperial authorities in any manner waive or diminish the right of the people of Canada to decide for themselves both as to the mode and the extent to which taxation shall be imposed. . . . Self-government would be utterly annihilated if the views of the Imperial Government were to be preferred to those of the people of Canada. It is therefore the duty of the present Government distinctly to affirm the right of the

[52] *Sessional Papers*, vol. 18, 1860, pt. 4, No. 38, p. 2.

[53] P.A.C., Series G, vol. 160, p. 328, Newcastle to Head, August 13, 1859.

Canadian legislature to adjust the taxation of the people in the way they deem best, even if it should unfortunately happen to meet the disapproval of the Imperial Ministry. Her Majesty cannot be advised to disallow such acts, unless her advisers are prepared to assume the administration of the affairs of the Colony, irrespective of the views of its inhabitants.[54]

In a more imperialistic era, this might have been near treason, but imperialism was at low tide in 1860. Galt's declaration of fiscal independence was accepted without comment, and his revolution was a bloodless one.

After British manufacturers and merchants realized that their protests about Canadian duties would go unheeded, they began to protest to their government over the high costs of administering the government of Canada and defending that "thankless" colony.[55]

This annual drain (of colonial charges upon imperial exchequer) is fully 16 per cent beyond any rate of profit to traders and those who supposedly benefited by this expense.[56]

British manufacturers in 1862, like colonial merchants in 1849, saw little good in an imperial connection that did not result in pecuniary advantage to themselves.

Of more serious current concern to Canadians, however, was the fact that Americans were now seeing little value in reciprocity, especially reciprocity accompanied by rising Canadian tariffs on manufactured goods. Comparison of duties in the two countries shows that at the inception of reciprocity in 1854 the Canadian tariff was still by and large at revenue levels while the United States had advanced well on the road to protection. Canada taxed few manufactured goods at more than 12½ per cent while similar

[54] *Sessional Papers,* vol. 18, 1860, pt. 4, No. 38, p. 4.

[55] Great Britain defrayed none of the costs of customs administration after 1854 (P.A.C., Series G, vol. 146, p. 71, G. Grey to Elgin, July 22, 1854).

[56] P.A.C., Series G, vol. 167, p. 153, Newcastle to Monck, March 29, 1862.

goods paid 20 per cent or more on entering the United States.[57] What protection there was in the Canadian schedules was agricultural rather than industrial. Canada taxed non-competing imports, tea, coffee, and molasses, with substantial duties. These goods, for the most part, came into the United States free. Canada consumed imports of $20 per capita annually as compared with $12 per head for the proportionally more wealthy United States.

As for the division of trade, exports from Canada to the United States in 1854 amounted to £2,604,000. This was about equal to shipments to Britain. On the import side, however, Britain with £5,741,000 of shipments to Canada, was ahead of the United States by some £1,858,000. Trade across the border, however, was on the increase even before 1854, for imports had risen from £1,243,000 in 1849 to £3,883,000 in 1854, and exports from £857,000 to £2,604,000.[58]

A proper appraisal of the importance of the Reciprocity Treaty is complicated by many non-economic factors as well as by the normal growth of trade between two rapidly growing countries. Railway construction in both countries, new capital investment, and, in the period after 1861, the Civil War in the United States are complicating factors. However, the initial stimulus to Canadian-American trade at the inception of reciprocity in 1854 cannot be denied. Canadian exports to the United States amounted to $16,737,000 in 1855, an increase of about 33 1/3 per cent over the previous year. United States exports to Canada increased in only slightly less proportion than her imports, amounting to $20,829,000 in 1855, about five-ninths of the total Canadian imports for that year. During the remainder of the reciprocity period, however, while Canadian exports to the United States increased slowly, imports from the British Empire increased more

[57] *Journals of Legislative Assembly of Canada,* 1854–1855, App. No. 14, App. D.D.D.D., unpaged.

[58] *Journals of Legislative Assembly of Canada,* 1854–1855, App. D.D.D.D., Table No. 1.

rapidly than from the Republic, which barely held its 1855 position on the Canadian market.

As Dr. Masters has shown, perhaps the principal cause of American discontent with the Reciprocity Treaty was its failure to continue to increase Canada's demand for manufactured goods.[59] The principal articles imported by Canada from the south were agricultural and raw products which were very similar to Canada's exports. In other words, the trade was one of convenience, reducing the long hauls and high transportation costs that would have been entailed if each country had not been able to trade with neighbouring centres in the other. Wheat grown in Canada West was carried into the United States, converted into flour, and reshipped to the Maritimes. Coal went from those colonies to the eastern seaboard of the United States, and coal from south of the Lakes was in turn imported by Canada. The depression of 1857 also lessened the profitability of the Canadian market to United States exports. The Cayley and Galt tariffs must also have had some effect since Isaac Buchanan declared they had called into existence over a thousand tanneries.[60] Certainly the export of United States manufactures declined steadily after 1859, and dissatisfaction with the treaty increased.[61] Irritation mounted to such a degree that the British minister would have advised stifling it by adding certain manufactured goods to the free list had Canadian fiscal needs permitted.[62]

From 1860 onward various governmental agencies of the United States began pouring out reports more or less hostile to reciprocity. Israel Hatch, a special investigator for the United States Treasury, made a report to Congress that was strongly averse. Complaining that the costs of customs collection along the northern border outstripped the revenue, Hatch contrasted the situation on the other side of the line, for while the United States

[59] Masters, *Reciprocity Treaty,* p. 204.

[60] Buchanan, *Industry of Canada,* p. 13.

[61] *House Executive Documents,* No. 39, 38th Cong., 1st sess., August 1, 1864.

[62] P.A.C., Series G, vol. 165, p. 4, Lyons to Russell, November 5, 1860.

collected duties on about $100,000 of Canadian products in 1858, Canada collected duties on $4,524,503 of American exports.[63] In a report intended as a rejoinder, James W. Taylor urged a Canadian-American *Zollverein*.[64] Both points of view were reiterated in the years that followed. In 1864 a report from the Committee on Commerce of the House of Representatives favoured abrogation, complaining of the Canadian tariff and charging that Canada had discriminated against the United States in canal tolls and by levying duties according to the place of last purchase instead of country of origin.[65]

The immediate reasons for the abrogation of the treaty in 1865 have been exhaustively treated elsewhere. It is sufficient to point here to the rising protectionist sentiment in the United States culminating in the Morrill Tariff of 1861, the above-mentioned disappointment over exports of manufactures to Canada, and charges of bad faith after the Cayley and Galt tariffs were adopted. The Civil War, with its diversion of resources and inflation of currency, made it increasingly difficult for the United States to export to Canada. In the last years of the war the United States could not export much gold and hence its opposition to the treaty increased.[66] In fact Canadian balances accumulated in the United States after 1863 were said to have been invested in United States bonds to the amount of $50,000,000.[67] Perhaps most important was American bitterness at Britain's pro-Southern attitude during the Civil War, especially at the *Alabama* incident involving the building of a Confederate sea raider in a British port which subsequently took a severe toll of Union

[63] Senate Executive Documents, No. 80, 62d Cong., 1st sess., pt. 1 (Vol. XIII), p. 637.

[64] *Senate Exec. Doc.*, No. 80, 62d Cong., 1st sess., pt. 1 (Vol. XIII), pp. 670–671. A *Zollverein* was advocated by Isaac Buchanan but condemned by Galt (Buchanan, *Industry of Canada*, p. 20, and Galt, *Report on Reciprocity Treaty, Sessional Papers*).

[65] Galt had admitted that this change in method of levying duties had been to encourage direct trade (Galt, *Report on Reciprocity Treaty, Sessional Papers*).

[66] Derby Report, 1867, *Senate Exec. Docs.*, No. 30, p. 11, 39th Cong., 2d sess.

[67] Taylor Report, 1866, *House Exec. Docs.*, No. 128, p. 6, 39th Cong., 1st sess.

shipping.[68] The offspring is often held responsible for the mother's shortcomings in international as well as socio-domestic relations. In any case, the best Canadian and British efforts could not save reciprocity from an indignant Congress. The treaty was denounced on March 17, 1865, so that it might expire a year later.

The dislocation of trade to be expected from abrogation led the British government, which had previously taken the attitude that the colonies had no right to interfere in treaty negotiations affecting them, to take the unprecedented step of suggesting an interprovincial council to give the imperial authorities an opinion on the negotiation of commercial treaties.[69] The council, presided over by the governor-general, convened at Quebec and voted for the renewal of the Reciprocity Treaty in its existing form or with reasonable modifications.[70] It also asked that Canadian representatives be sent to Washington to confer with the British minister on trade matters. The result was that Galt, Howland, and representatives of Nova Scotia and New Brunswick conferred not only with the British minister, Sir Frederick Bruce, Elgin's brother, but with Congressional leaders. The Canadian government would probably have agreed to extending reciprocal free trade to many manufactured goods, including agricultural machinery and tools, in 1865, if the treaty could have been saved. Its earlier reluctance (in 1861) to agree to such an extension had increased American dissatisfaction with the measure.[71]

It is well to examine the economic life of the province when something resembling a modern tariff was first placed on the statute books. The specialization characteristic of new countries was still evident in Canada's foreign trade and domestic production in the 1850's.[72] In agriculture, wheat was preëminent to

[68] Masters, *Reciprocity Treaty,* pp. 121–147, especially p. 133.

[69] Masters, *Reciprocity Treaty,* p. 236 citing Series E, Proceedings in Council of the Canadian Executive, Jan.–Dec. 1865, Cardwell to Monck, July 22, 1865, enclosure.

[70] This same council also voted for reciprocity negotiations with the British and Spanish West Indies, Brazil, and Mexico. See next chapter.

[71] Masters, *Reciprocity Treaty,* p. 172.

[72] Shortt and Doughty, *Canada and Its Provinces,* V, 247–249.

such an extent that quantities of fruit, vegetables, and dairy products had to come in from the south. With reciprocity, important imports from the Republic such as rough grains, meat, flour, and livestock, were also produced at home, and coal, fish, and oils were being exported from the Maritime colonies to New England even as similar products reached Canada from Pennsylvania and the middle Atlantic states. Transportation facilities north and south across the border were usually superior to internal trading facilities so that isolated communities in Canada West were best served from the United States.

No longer did Britain even nominally attempt to monopolize the market for manufactures and tropical products. Tobacco, miscellaneous groceries, boots, shoes, leather goods, and furniture, as well as the non-indigenous sugar, molasses, coffee, and tea crossed the border in quantity. Under the pre-1846 tariff of 2½ per cent plus discriminating imperial preferences, British trade with Canada was growing three times as rapidly as American trade. But, after the change in commercial policy ending the preference, the British had been losing out and in 1850–1855 the relative increase was three to one in favour of the Americans.[73] In iron and hardware one-third of Canada's imports by 1855 were of American origin. In clothing, cottons, woolens, and silks, as well as high-grade iron, hardware, glassware, and pottery, however, the mother country retained her supremacy during the reciprocity period.

Native Canadian industries were just beginning to emerge as genuine manufacturing enterprises by 1860. On the whole, up to Confederation, the industrial community, except at Toronto, Montreal, and Hamilton, was decentralized and insecurely rooted in many small towns and villages scattered throughout the eastern townships, the Lake Ontario region, and the Niagara peninsula.[74] Agriculture and lumbering furnished raw materials for flour mills,

[73] *Journals of Legislative Assembly of Canada,* 1850–1856, Appendices, Trade and Navigation Returns.

[74] O. D. Skelton, "General Economic History of the Dominion," 1867–1912, reprinted from Shortt and Doughty, *Canada and Its Provinces,* IX, 107–109.

tanneries, cheese factories, a few furniture factories, and saw mills. In turn, flour mills, boot and shoe shops, implement and tool forges, found their markets in the local agricultural community or at least within fifty miles of point of production. Lacking water transport, and without railways till the completion of the Grand Trunk in 1859, inland districts relied especially on local industry. As Galt commented in 1862, transportation charges rather than tariffs afforded most of the protection enjoyed by local industry.[75] A brief review of such representative industries as iron and steel, farm machinery production, and textile manufacture may be of interest.

Apart from the venerable forges on the St. Maurice at Three Rivers, dating back to the French regime, and sporadic attempts at working the bog ore of Norfolk and Leeds counties in Ontario, little is heard of a Canadian iron industry before Confederation. In the 1830's some iron was produced near Lake Erie and deliveries were made to Toronto and Hamilton and later to Buffalo and Pittsburgh in the United States. Some manufacture of bar iron was attempted at Marmora, Ontario in the 1850's, but methods were too antiquated and production too small in scale to be successful. While prices held up to the $36 a ton level and the supply of rich bog ore was maintained, small-scale enterprises supplying forges, implement shops, and stove works could operate.[76] But the available raw material furnished no basis for a permanent industry. Pig iron was free under reciprocity, but duties on partially fabricated sheets and tubes reached 10 per cent in 1859. The influence of the tariff at this stage was negligible. Foundries and rolling mills arose in the 1860's with the development of railroads.[77] Sixteen metal shops and factories in Montreal were listed in 1864.[78]

[75] Galt, *Report on Reciprocity.*

[76] W. J. A. Donald, *Canadian Iron and Steel Industry* (Boston and New York: Houghton, Mifflin, 1915), pp. 49–52.

[77] Innis and Lower, *Select Documents,* p. 593.

[78] *Montreal Gazette,* July 20, 22, 1864, quoted in D. G. Creighton, "British North America at Confederation," App. 2 to Royal Commission, *Report on Dominion-Provincial Relations* (Ottawa: King's Printer, 1940), p. 19.

Farm machinery gained an early foothold in the small towns of Canada West. Local peculiarities of demand and the need for making repairs on the spot lent encouragement. Rapid advances made in the United States were copied in Canada. The small family enterprise usually produced a diverse list of household as well as outdoor tools and implements.[79] In the census of 1851 there was only one plant in Canada recorded as exclusively in the implement business, although by 1850 the modern firms of Frost and Wood (1839) and Massey-Harris (Massey 1843, Harris 1846) as well as others long since disappeared had started operations. Machines of American origin, such as the "Ketchum" mower, the "Burrell" reaper, and the "Nanny" combined reaper and mower were manufactured in Canada in the 1850's; and by the 1860's "so great has the supply become from our home manufacturers that an American made machine is now as great a rarity as a Canadian one was a few years ago." [80] In contrast to later-day automobile manufacturers, McCormick, Deere, and their contemporaries in the United States did not bring their inventions to Canada. Indigenous Canadian enterprises rather than branch plants characterized this industry up to 1900.

In view of the hard times in Canadian agriculture in the 1840's it may be surmised that the legislature needed revenue in 1847 when it provided a 10 per cent duty on machines for farm purposes, with the exception of threshing machines and fanning mills which bore 12½ per cent. The general list of farm machinery was raised to 12½ per cent in 1849 and to 20 per cent ten years later. "Incidental" protection must surely have been provided by these duties, but it is not clear that the pioneers in the industry began operations on that account. Risks of initial investment were not enough to require tariff protection. The small shop set up more as blacksmithy than as factory either gradually developed into the modern plant by the ploughing back of business

[79] For example, Consitt's Agricultural Works in Guelph made fanning mills, lawn mowers, ploughs, etc. (Innis and Lower, *Select Documents*, p. 595).

[80] R. L. Jones, *History of Agriculture in the Province of Canada*, p. 163, cited in Creighton, "British North America at Confederation," p. 19.

profits or rapidly fell by the wayside. Even in the United States farm machinery remained a small-scale enterprise serving principally a local market until well towards 1860.

Three cotton spinning mills were established in Canada between 1844 and 1860. Gray piece goods, sheetings, denims, and cotton batting were produced. Fire, a constant hazard, destroyed the earliest mills at Sherbrooke and Thorold.[81] The Civil War injured the cotton industry in the northern states and set the stage for the opening of three new mills in Canada and one in St. John, New Brunswick, the oldest existing cotton mill in the Dominion. Several woolen mills had their start in the cotton famine of the Civil War though some date as far back as the 1840's.[82] Canada West was reputed to have 91 and Canada East 31 woolen mills in 1867.[83]

During the period of reciprocity Canada supplied the United States with combing wool needed in the manufacture of worsteds,[84] but as the Canadian industry grew it too was based more and more on imports of raw wool.[85] The power knitting industry dates from 1858 at Ancaster, Ontario.[86] War in the United States, cutting off supplies of cotton, was perhaps more important to the woolens industry than the 5 to 7½ per cent increase in textile duties in 1859. Great Britain, in any case, controlled the market in all better grades of textile products till long after Confederation.

By the end of reciprocity Canada's exports were becoming diversified. Agriculture had very largely made the transition from the self-sufficient to the commercial farm with a consequent impetus to manufacturing. Agricultural and extractive enterprises were still most important on the industrial scene, but con-

[81] *Report of Royal Commission on the Textile Industry* (Ottawa: King's Printer, 1938), p. 32.

[82] *Report of Royal Commission on the Textile Industry,* p. 32.

[83] W. J. Patterson, *Statements Relating to Trade, Navigation, Mining, . . . of the Dominion of Canada* (Montreal, 1867), pp. 61–62, quoted in Creighton, "British North America at Confederation," p. 19.

[84] Frank M. Taussig, *Tarriff History of the United States* (New York: G. P. Putnam's, 1931), p. 213n.

[85] Innis and Lower, *Select Documents,* p. 607.

[86] *Report of Royal Commission on Textile Industry,* p. 45.

sumer goods industries were growing. Though the use of power-driven machinery was increasing, heavy industry had hardly begun. In all this development, the influence of tariff policy was small except in two respects—reciprocity stimulated the production of other cash crops besides wheat, and incidental protection afforded a little advantage to a few industries or firms.

The major economic events of the period reviewed in this chapter may all be related to a growing sense of political responsibility and a striving for economic expansion and unity. The "blow" of 1846 that began the soon-to-be-completed process of eliminating the colony's preferred trading position in Great Britain was for a time followed by frustration and depression. During the next two decades, however, responsible government was won, and a British-negotiated but nonetheless strictly North American trading arrangement was made with the United States. Furthermore, reciprocal free trade was established with the seaboard colonies and, most important for our discussion, a tariff was developed based on Canadian revenue needs and responsive only to the pressures imposed by Canadian economic interests.

## CHAPTER V

## THE MARITIMES AND CONFEDERATION

THE CONFEDERATION of 1867 was a union between a small agricultural and industrial economy located on rail and water communications with the interior of the continent and a maritime outpost with its economic interest turned towards foreign commerce, lumbering, and fishing. As central Canada's industrial development was beginning, Nova Scotia specialized in a declining ship-building industry, fishing, and foreign trade and imported a large portion of her food. New Brunswick depended to a great extent on her forests, while Prince Edward Island was a food exporter. Though the tariffs of all three were lower than the Cayley-Galt tariff in Canada, their historical devotion to free trade has been much exaggerated. With the exception of Prince Edward Island, "incidental protection" was not absent from the tariff history of the colonies by the sea.

Before the American Revolution Nova Scotia tried to convert that mainstay of colonial revenues, the liquor duty, into a protective device. Later both Nova Scotia and New Brunswick attempted to foster their trade with the West Indies by tariff favours. While the Maritime colonies were too dependent upon the outside world to prohibit import trade, they sought to profit by all the intricacies of British commercial policy which might give them a privileged trading position or sheltered industries. Once they were allowed to carry on necessary trade with the United States, they urged the maintenance of other features of the Navigation Acts which insured them a special place in the West Indies or a position as *entrepôt* for trade between the United States and the West Indies. When the West India trade was finally thrown open their defeat did not discourage them from upholding imperial duties on flour and provisions which afforded protection to milling and a bounty to agriculture. Despite the

comparative insignificance of agriculture in Nova Scotia and New Brunswick, these colonies, like Canada, had their wave of agricultural protection and their contests between the farming and the mercantile interests, less bitter only because of the greater weakness of agriculture in the Maritimes. It is true that protectionism waned, especially in Nova Scotia, before Great Britain went over to free trade, but the ambition to build up colonial industry behind tariff walls was not absent and even constituted an obstacle to the initial efforts at Confederation.

The early history of customs duties in the Maritimes bears a superficial resemblance to that of Quebec, for in both cases levies on wines and spirits constituted the backbone of provincial revenue. But since Nova Scotia was an English-speaking colony, it soon came to exercise more control over its commercial policy than the province of Quebec and to strike out on a divergent course. In 1751 Nova Scotia began the development of a tariff by charging an excise on spirits sold and an impost on those imported, except from Great Britain or the West Indies.[1] Unlike Quebec where revenue objectives and imperial regulation dominated the rum trade, the Nova Scotia taxes became the pillars of a policy of protection fostered through the influence of a local distillers' monopoly.[2] When the first legislature met in 1758 it fell into line by adopting duties on wines, beer, rum, and other distilled liquors and levying on the goods of the West Indies, though not of Great Britain (32 Geo. II, c. 1, N.S.). As the duties increased, efforts to break the local monopoly, begun by the imperial government, were carried forward by the province, which in 1761 inaugurated a policy of encouraging commerce by allowing free entry to West India rum, two-thirds of which was bought with the proceeds of the sales of Nova Scotia produce and carried in provincial vessels (1 Geo. III, c. 17, N.S.). The lack of trade with the West Indies made this relief from monopoly illusory for about

[1] "A Study of Early Provincial Taxation," prepared by Margaret Ells, *Bulletin of Public Archives of Nova Scotia*, vol. I, No. 2 (Halifax, 1937).

[2] John B. Brebner, *Neutral Yankees of Nova Scotia* (New York: Columbia University Press, 1937), pp. 69, 84, 153–154.

ten years, while molasses imported cheaply from New England enabled the local distillers to control the market. With the American Revolution, however, the basis of the trade collapsed, and the imperial government embarked upon a policy of encouraging direct trade with the West Indies. Thus ended Nova Scotia's first effort at protection.

As the greed and influence of the distillers raised the levies on rum high enough to stimulate smuggling, additional sources of revenue were needed. Sugar, tea, coffee, playing cards, cider, and building materials were for various periods subject to excise and impost (3 & 4 Geo. III, c. 14, N.S.; 5 Geo. III, c. 12; 14 & 15 Geo. III, c. 12, N.S.).[3] The practice of levying an excise upon certain commodities, whether of domestic or foreign origin, became firmly fixed in the fiscal system of the colony. This use of the excise was a subterfuge to permit the taxation of British goods. Though the British colonial authorities had notified the colony as early as 1762 that a customs tariff might be levied on British goods "as a mode of raising revenue or a necessary measure of Police," the Nova Scotia legislature appeared to think an impost on such goods illegal.[4] In 1782 a 2½ per cent duty was levied on all imports by non-residents (12 Geo. III, c. 7, N.S.). At the close of the American Revolution the revenue of Nova Scotia was raised chiefly by tonnage duties and by imposts on sub-tropical products including staples such as sugars, coffee, and tobacco.

New Brunswick's first legislative assembly in 1786 raised its revenue by specific duties on rum and other liquors and by an ad valorem duty of 5 per cent on imports from foreign countries, excepting necessities like lumber, livestock, grain, and salt (26 Geo. III, c. 55, N.B.).[5] Brown sugar and coffee were charged

[3] The statutes down to 1815 are as numbered in *Nova Scotia Statutes, Revised* (Halifax: John Howe), vol. I, 1805; vol. II, 1816; vol. III, 1827. The numbering frequently does not correspond with that of the statutes of the year but has been used here to facilitate reference to Miss Ells' list (Ells, "Study of Early Provincial Taxation").

[4] See Ells, "Study of Early Provincial Taxation"; or Graham, *Sea Power*, p. 115.

[5] Goods imported by a non-resident and not consigned to an inhabitant were to pay 2½ per cent. This was raised to 5 per cent in 1789 (29 Geo. III, c. 6, N.B.).

specific duties the following year (27 Geo. III, c. 3, N.B.). Prince Edward Island drew its early revenues from duties of the same type.

The new economic environment that resulted from the American Revolution and the peace of 1783 led the colonies to reorganize their tariffs and forced the imperial government to modify the old colonial system. As in Quebec, the initiative was taken by the colonial governors. Technically all trade between the colonies and the successful rebels was in contravention of the Navigation Acts, for such trade, unlike that between Canada and the United States, was entirely sea-borne. Faced with an acute food shortage, brought on by the influx of loyalist refugees, the governors of Nova Scotia and New Brunswick, on their own responsibility, allowed the importation of livestock, provisions, and lumber from the United States in foreign as well as British ships.[6] In 1785 an imperial order limited the trade to British ships but allowed American goods to enter in case of emergencies—an ever-present experience in the colonies.[7] In 1788 when trade with the United States was regulated by imperial statute (28 Geo. III, c. 6, Imp.), importation from the Republic was theoretically limited to certain commodities in time of emergency.[8] "Emergency" was construed with such liberality that there developed a regular trade upon which Nova Scotia laid a 10 per cent duty, however exempting lumber, flour, grains, and livestock (29 Geo. III, c. 2, N.S.). New Brunswick took account of the new situation by levying *2s.* per barrel on flour from the United States (29 Geo. III, c. 6, N.B.).

Down to the American Embargo Act of 1807 the trade and industrial development of the Maritimes languished. Ideas of supplying the West Indies and serving as a great centre of commerce had to be pushed into the future, for the colonies were

[6] Graham, *Sea Power*, p. 33.

[7] John Reeves, *History of the Law of Shipping and Navigation* (London: printed for the author, 1792), pp. 366–367.

[8] The same act forbade any importation by sea into Quebec. See Chapter II.

unable to produce their own food or develop prosperous staple trades. Under these conditions provincial tariffs had to be of a revenue character. In Nova Scotia both local traders and fishermen opposed duties which would make provisions expensive and encourage the smuggling trade across the badly policed frontiers. In fact, no customs duties could be really effective where opportunities for smuggling by land and sea were so great. In 1792 the legislature of Nova Scotia adopted a bill taxing a general list of imports at 2½ per cent when brought in by residents and 5 per cent when imported by non-residents (32 Geo. III, c. 13, N.S.). The next year specific duties on wine, rum, and sugar were increased. The new rates, for the first time, applied on goods from Great Britain and were minima, for additional duties were collected unless one-third of the imports had been exchanged for the products of the colony and imported in a vessel owned by a resident. This meant that Nova Scotia was favouring direct trade with the West Indies at the very time that the imperial government was trying to stimulate triangular voyages by forcing Canadians to buy their rum from Great Britain.[9] Nova Scotia also continued its 10 per cent levy of 1788 on American goods (33 Geo. III, cc. 1 & 13, N.S.).

New Brunswick followed a similar course, levying specific duties on rum, wine, and brown sugar. Wheat or rye flour from the United States was charged 2*s*. per barrel, and 5 per cent was levied upon goods imported by persons who were not residents of Great Britain, Ireland, or British North America (32 Geo. III, c. 10, N.B.). With the next year came a 10 per cent duty on livestock and meats (33 Geo. III, c. 10, N.B.). Throughout this period Prince Edward Island continued to rely upon the staple revenue producers, wines, rum, and sugar (35 Geo. III, c. 10, P.E.I.).

The American policy of non-intercourse or embargo opened a new chapter in the economic life of the Maritimes because it led

[9] See the discussion of the Quebec Revenue Act in Chapter II. In 1802, similar preference was given to wines from the Azores (42 Geo. III, c. 14, N.S.).

to further modification of imperial commercial policy. To maintain both the Maritimes and the West Indies, some trade with the United States was vital. An invitation to Americans to defy the embargo was, therefore, set forth in an imperial statute of 1807 (47 Geo. III, sess. 2, c. 38, Imp.) which permitted certain enumerated articles to be imported or exported to the United States at specified ports in Nova Scotia or New Brunswick in either British or American vessels. The goods eligible for import included timber, cattle, grain, flour, and naval stores. The lawful exports were gypsum, grindstones, and other produce or manufactures from the colonies, Great Britain, or the West Indies. In 1808 Halifax and Shelburne in Nova Scotia and St. John in New Brunswick were designated as the ports for this trade. In 1809 the law was further liberalized when any vessel was allowed to import or export goods specified by order-in-council, any statute to the contrary notwithstanding (49 Geo. III, c. 49, Imp.). No order-in-council, however, was issued until 1811. Still another bid to Americans to break their own law was contained in an act of 1808 which allowed the governors of Nova Scotia and New Brunswick to admit rice, grain, flour, and other articles from the United States for re-export to the West Indies (48 Geo. III, c. 125, Imp.). These privileges, which Americans had long desired, were more than sufficient to encourage defiance of the hated embargo by men who were not without practice in the art of smuggling. Nova Scotia and New Brunswick boomed as the centres of a new triangular trade with the West Indies and Europe. The end of the embargo brought a tightening of British regulations, but the renewal of non-intercourse in 1811 called into play the law of 1809, and an order-in-council threw Halifax, St. John, and St. Andrews open to foreign ships bringing wheat, flour, and naval stores from the United States.[10]

Even formal belligerency did not put an end to all international trade in this northeastern corner of the continent. Until a close blockade was established at the end of 1813, licenses for trade between Maritime and American ports were issued even when

[10] Graham, *Sea Power*, pp. 209–210.

enemy ownership of the vessel and cargo was admitted.[11] Goods were also systematically trans-shipped from American to British vessels as long as the sea remained open to American commerce. In 1813 Nova Scotia formally recognized the trade with the enemy by levying the usual duty of 10 per cent on all American goods except grain, flour, provisions, and naval stores (53 Geo. III, c. 6, N.S.); in 1814 New Brunswick renewed its levy of 5 per cent on livestock and provisions from the United States (54 Geo. III, c. 18, N.B.). When the sea routes were closed, the trade continued by land.

With the coming of peace and the expiration in 1815 of the imperial legislation of 1809, the act of 1788 again became operative, closing the colonial trade to American ships except in emergencies. As in the past, however, some American produce flowed into the Maritimes. The barring of American ships from the West Indies was resented in the United States and led to the enactment of a series of American laws designed to force open the coveted West India trade. In 1816 the United States added 10 per cent to its duties levied on goods imported in vessels of nations not entitled to most-favoured-nation treatment—an act directly aimed at Britain.[12] In 1817 a duty of $2.00 per ton was imposed on vessels coming from ports from which American ships were excluded.[13] The American Navigation Act of 1817 struck at the triangular trade by limiting the importation of non-British goods in British vessels—an attempt to prevent British vessels not owned in the West Indies from bringing the produce of the British

[11] The number of American vessels entering and leaving Halifax was as follows:

| | | |
|---|---|---|
| 1811 | 0 | 0 |
| 1812 | 42 | 35 |
| 1813 | 107 | 93 |
| 1814 | 28 | 34 |
| 1815 | 0 | 0 |

See W. R. Copp, "Nova Scotian Trade during the War of 1812," *Canadian Historical Review*, XVIII (1937), 152. The United States tried to check this trade by imposing heavy penalties on citizens who accepted licenses. *U. S. Statutes at Large*, III, 84.

[12] *U. S. Statutes at Large*, III, 313–314.

[13] *U. S. Statutes at Large*, III, 344.

American Trade Act, throwing open certain free ports in the West Indies as well as others in British North America (3 Geo. IV, c. 44, Imp.). To these free ports grain, provisions, timber, and naval stores could be brought in either British or American vessels, an important departure from the theory and practice of mercantilism.

Such a solution of imperial commercial problems was not what the colonies desired. Pleas from the West Indies for the admission of foreign ships were considered in Nova Scotia to evidence a selfish unwillingness to share the burdens of Empire.[17] Its own selfish interest in the *entrepôt* system was glorified as allegiance to mercantilism. In order to quiet West Indian complaints of high prices, Nova Scotia advocated measures to foster the exchange of West Indies and Canadian products. In place of the "ruinous" flour trade carried on with the Americans by both Nova Scotia and the West Indies, flour could be obtained from Canada for West Indian use if the various acts levying duties on West Indian rum exported from Nova Scotia to Canada were repealed.[18] The West Indian and American Trade Act of 1822 marked the abandonment of the dream of making the Maritimes the *entrepôt* of the American trade with the Indies. Yet it failed to satisfy the Americans and to cement relations between the British colonies and the United States. The latter still objected to the restrictions placed on the rights of American ships to trade to the free ports of the colonies. Though the Maritimes had objected to the opening of the West Indies to foreign ships, they attempted to comfort themselves with the hope of expansion under the more liberal trading policies that seemed to be developing within the Empire at this time.

The adjustment of the Maritime colonies to the loss of their *entrepôt* position was hastened by Huskisson's legislation of 1825 (6 Geo. IV, c. 109 & 114, Imp.). This threw the free ports open to vessels of European as well as American countries as long as

[17] *Journals of Assembly of Nova Scotia,* 1822, April 3, 1822.

[18] *Journals of Assembly of Nova Scotia,* pp. 167–168 and 171–172, March 16 and 19, 1822.

they were prepared to give reciprocal advantages to British and colonial ships and merchants. Designed in part to lessen colonial dependence on the United States and in part to bring that country to a more conciliatory frame of mind with respect to the shipping question, the act was more successful in the first than in the second objective. While other countries hurried to take advantage of Huskisson's offer, the United States failed to make concessions.[19] A period of reciprocal imposition of high tonnage and special import duties followed until March 17, 1827, when American ports were closed to all British colonial shipping. The free ports of British North America, however, remained open to American vessels though Halifax had been closed for a brief period during the previous year. Not until October 5, 1830, were American ports opened to colonial ships. Soon thereafter, however, all discriminatory port duties were removed, and American ships were freely admitted to the West Indies, another severe blow to the Maritimes.[20]

But while Nova Scotia with her growing merchant marine and New Brunswick with an expanding lumber trade had favoured the retention of the principle of the Navigation Acts, the new colonial policy drew some praise from the colonies. Four hundred more vessels came to Nova Scotia in 1826 than in 1825, and the provincial revenues naturally increased.[21] By 1828 imports were nearly three hundred thousand pounds above the *entrepôt* year 1821.[22] A healthy export trade in plaster of Paris and gypsum supplemented the staple trade in fish and ships from Nova Scotia. Lumber was the principal export of New Brunswick. Manufactures came very largely from Britain and the colonies had an unfavourable balance of trade with the mother country which ab-

[19] In 1828 Spanish ships were allowed to trade with British colonies in their own produce and to carry goods from the colonies to any foreign country (P.A.C., Series G, vol. 271, Murray to Lieut.-Gov. Ready, July 26, 1828).

[20] *Journals of Assembly of Nova Scotia,* 1830–1831, p. 124, January 8, 1831.

[21] *Journals of Assembly of Nova Scotia,* 1827, p. 8, and 1828, p. 187; Governor's speeches at the opening of the legislature.

[22] Thomas C. Haliburton, *An Historical and Statistical Account of Nova Scotia,* 2 vols. (Halifax: Joseph Howe, 1829), vol. II, chart facing p. 388.

sorbed little of the colonies' exports except lumber and ships. Provisions came principally from Canada and the United States. Some of these were re-exported to the West Indies in exchange for the staples of the islands.[23]

Industrially not much development occurred in the Maritime colonies before 1815. Agriculture continued to be relatively less profitable than commerce, fishing, and lumbering, though efforts were made through the use of bounties or the tariff to encourage the growing of grain. Livestock raising was encouraged by the maintenance of a provincial stud in Nova Scotia and by high duties. Between 1808 and 1827 the number of head of livestock increased by a quarter million in that province.[24] Mining, except for a little coal, had hardly begun. After 1815 some infant industries producing goods for local use made a start in Nova Scotia. Sugar refining, distilleries, breweries, and furniture makers made some progress. Most of the manufacturers looked to the government for assistance in the form of drawbacks, bounties, and the tariff. Raw sugar was imported under drawback, cordage and chocolate makers received bounties, and incidental protection was given others.[25]

Though the mother country's legislation in this period was directed at the regulation of trade, imperial duties constituted an important portion of the revenue. The West Indian and American Trade Act of 1822 allowed foreign lumber, naval stores, cotton, livestock, provisions, wool, and tobacco to enter the colonies but excluded fish and salted provisions. A duty of 5*s*. a barrel was levied on wheat flour, 10 per cent on cattle and horses and £1 1*s*. on red and 15*s*. on white oak staves. Huskisson's legislation lowered some of these duties and generally liberalized trade. Practically all foreign goods except tea, coffee, sugar, molasses, fish other than fresh, and salt beef and pork were allowed to enter after January 5, 1826. The general rate on foreign goods was 15 per cent, but one-tenth of the duty was remitted if the

[23] Haliburton, *Nova Scotia*, II, 388.
[24] Haliburton, *Nova Scotia*, II, 376.
[25] Innis and Lower, *Select Documents*, pp. 399–400.

foreign goods were imported into the colonies through the United Kingdom.

In both Nova Scotia and New Brunswick numerous revenue duties were imposed and increased during and after the War of 1812. Some of these tariffs were quite discriminatory in character. West Indian products, especially beverages and sugars, as heretofore, carried most of the revenue burdens, though when a limited trade was opened with the United States after the war, imports of livestock and provisions produced considerable revenue. Special levies of 2½ and 5 per cent on importations by non-residents and aliens were popular. New Brunswick adopted Nova Scotia's practice of encouraging her own shipping and export trade by charging additional duties on imports if two-thirds of dutiable imports in a certain shipment were not exchanged for domestic produce. Importation in provincial vessels was another condition necessary for escaping special duties (47 Geo. III, c. 10, N.B.).

Agricultural protectionism raised its head in the Assembly of Nova Scotia in 1822. The Assembly voted a protective duty on wheat and flour imported from the United States, but the Legislative Council did not concur.[26] In 1826–27 the provincial duties, which had continued to mount during the 1820's, were thoroughly overhauled; the excise was raised; and, though the general rate of duty of about 3¾ per cent was not affected, many individual rates were raised (7 Geo. IV, cc. 5, 7, & 8 N.S.). At the same time, many foreign articles on which imperial duties were now paid were exempt from the provincial levies. Others, not specifically exempt, were relieved even of imperial duties if they were exchanged for fish or fish oil (7 Geo. IV, c. 4, N.S.). To this, British authorities took strong exception, holding it a violation of the fundamental British position that a colony could not interfere with imperial duties.[27] Nevertheless the provincial arrangements held, though after 1838 the exemptions applied only to

[26] *Journals of Assembly of Nova Scotia,* 1822, March 25, 1822.

[27] *Journals of Legislative Council of Nova Scotia,* 1841, App. No. 1, p. 1.

imports from South America and Europe (1 Vict., c. 9 (1st sess.), N.S.).

New Brunswick seems to have avoided flirtations with protection in the twenties though it granted bounties on grain production (60 Geo. III, c. 12 and 4 Geo. IV, c. 22, N.B.). In 1827 the basic provincial duties on liquors, sugar, molasses, and coffee remained at 1818 levels. New Brunswick, however, took cognizance of the change in imperial policy by raising certain of her duties on manufactures. This colony now made her colonial duties additional to, rather than substitutes for, the imperial duties only if higher than the latter, as heretofore. The colony also established an n.o.p. rate of 5 per cent on foreign manufactures except food, liquors, lumber, and books (8 Geo. IV, c. 25, N.B.). By 1830 the tariff of Nova Scotia was beginning to take shape as a more protective and modern-looking instrument than those in the other Maritime colonies.

Despite trade expansion and the new liberality in imperial policy, dual control over trade bred new problems. In the late 1820's one of the chief causes of colonial complaint was imperial control over the customs revenues. In 1822 the principle of the Declaratory Act of 1778 had been confirmed, and all duties collected under imperial and local acts went to the provincial treasuries except the amounts required for the salaries of the collectors. With this Nova Scotia was not content, holding that the Declaratory Act was being violated if she did not have complete disposal of all her tax income;[28] in 1830 the colony received complete control of the customs revenue (10 Geo. IV, c. 31, N.S.). New Brunswick, which started an agitation along with Nova Scotia, did not receive a similar privilege until five years later.[29]

Nova Scotia also chafed at imperial legislation which handicapped the fisheries. To offset New England's advantages Nova

[28] *Journals of Assembly of Nova Scotia,* 1826, p. 644, April 4, 1826, and *ibid.,* 1829, p. 479, March 23, 1829.

[29] See Marion Gilroy, "The Imperial Customs Establishment in Nova Scotia," *Canadian Historical Review,* XIX (1938), 277–291, esp. p. 285.

Scotia wanted the mother country to alter the imperial duties when they increased the costs of operating the fisheries and, more important, to exclude United States vessels from the fishing grounds. High imperial duties and aggressive Yankee fishermen were held responsible for the extensive smuggling trade.[30] Since fishing equipment could enter the colonies duty free from England, it may be doubted whether any great cost differential existed except perhaps in provisions, the duties on which the colonies themselves were of two minds about retaining. In 1834 the duty of 15 per cent on fishing equipment from the United States was reduced by provincial legislation (4 Wm. IV, c. 1, N.S.). In the matter of provisions Britain was willing to allow freedom of importation, but other colonial interests intervened.

In 1831, when flour and salted provisions were made free in the Canadas, the Board of Trade wished to see them made free in the Maritimes too, but the Colonial Secretary said the finances of those colonies required maintenance of the duties. Then the Nova Scotia Assembly began to agitate for the opening of more provincial ports to foreign produce or, if need be, to foreign ships.[31] Glenelg, the Colonial Secretary, took the view that if flour and provisions were allowed free entry the Maritimes would care little about free ports and the expense of staffing them would be avoided.[32] Glenelg's proposed reversal of former Colonial Office policy, which had aimed at colonial self-sufficiency, met with high approval by the Board of Trade which was "unwilling that, after the purpose of regulation for which those Duties [on flour and provisions] were imposed has been relinquished they should be continued as Duties of revenue." [33] Nova Scotia was not so unwilling to retain the duties despite the principle of the Declaratory Act which was involved. In fact, the desire to build up a wheat or

[30] For the whole topic of the fisheries, see Harold A. Innis, *The Cod Fisheries, the History of an International Economy* (New Haven: Yale University Press, 1940). See also *Journals of Assembly of Nova Scotia,* 1834, App. No. 15, pp. 20–21.

[31] *Journals of Assembly of Nova Scotia,* 1834–1835, pp. 764 and 789–790, January 3 and 15, 1835 and App. No. 6, pp. 15–16.

[32] *Journals of Assembly of Nova Scotia,* 1836, App. No. 4, p. 13.

[33] *Journals of Assembly of Nova Scotia,* 1836, App. No. 4, p. 14.

flour industry behind a tariff wall had been voiced at least as early as 1822 and many times thereafter.[34] Though the Assembly agreed that if the imperial duty on flour were removed no provincial duty would be imposed, the lieutenant-governor presented two objections to Glenelg's suggestion—"the one was that the extinction of these taxes would be almost destructive to the farming interest of that province, in whose favor [*sic*] they operate as a bounty"—the other was that they helped to support the imperial customs service.[35] These arguments led to the abandonment of the Colonial Office's plan. Instead of outright repeal in 1835, the imperial duties were remitted on flour, salt beef, and pork imported for the use of the fisheries.

Again in 1838 Glenelg thought he would carry through the repeal of these duties in New Brunswick and Prince Edward Island. But now New Brunswick entered a vigorous protest with protectionist bias:

> the effect of the duty . . . has been progressively and rapidly to diminish the importation of Flour into the Province, from the United States, nearly in the ratio in which it has increased the importation of Wheat from England; than the former branch of trade, viz. the importation of Flour from the United States, nothing can be more injurious to the Colony, in as much as it carried out of it a large amount of Specie, in exchange for an article, the whole benefit of manufacturing and importing which is enjoyed by Foreigners, and further, that the duty to be repealed has unmistakably operated as an indirect bounty to the Provincial Agriculturist . . . that large investments of capital have been made in the erection of Mill Establishments in the immediate vicinity of Saint John, and extensive arrangements entered into for the importation of bonded wheat from England, with the object of entirely superseding the necessity of importing Flour; the great advantages which must necessarily attend the manufacture of bread stuffs to the country in which the manufacture is carried on, added to those derived

[34] *Journals of Assembly of Nova Scotia,* 1822, pp. 167–168, March 16 and 25, 1822; *ibid.,* 1832, App. No. 8, April 11, 1832; *ibid.,* 1834–1835, p. 784, January 13, 1835.

[35] *Journals of Assembly of Nova Scotia,* 1839, App. No. 20, p. 34.

by the shipping interests, from the importation of the unmanufactured material, in *British Shipping,* and I will add, to the New Brunswick Farmer, in respect of such of the Grain as may be raised in the Province, are too obvious to render it necessary for me to do more than advert to them. . . .[36]

Nova Scotia was now finding that the practice of exemptions for the fisheries was open to grave abuse. The Assembly decided in 1839 to levy a colonial duty upon any foreign flour unless it was actually used for the fisheries.[37] When the Colonial Office then asked for an expression of opinion on the repeal of the imperial duties on provisions, the Assembly of Nova Scotia voted after long struggle to recommend the repeal of the duty on flour.[38] New Brunswick, on the other hand, voted against the repeal of the duty on flour, as well as that on salt provisions.[39]

Faced with so much opposition Glenelg dropped his proposal, and the provinces retained their protected milling industry. But the protectionists had temporarily won their point only to see it threatened in 1842 by the proposal of an imperial duty on foreign wheat which would have ruined their milling industry.[40] Though they escaped this, the British Possessions Act (5 & 6 Vict., c. 49, Imp.) cut their protection on flour from 5*s.* to 2*s.* per barrel and from 12*s.* per hundredweight to 3*s.* in the case of salted provisions.

Some of this protection was reëstablished however as these duties were extended to Canada into which provisions had entered freely after 1831. Stanley, then Colonial Secretary, explained that Canada had been exempt in 1831 in order to encourage the St. Lawrence route but had actually gained thereby an unfair advantage over the Maritimes in trading with the West Indies

[36] *Journals of Assembly of New Brunswick,* 1839, p. 266, Sir John Harvey to Glenelg, May 18, 1838.

[37] *Journals of Assembly of Nova Scotia,* 1839, App. No. 20, p. 34, and 2 Vict., c. 3, N.S.

[38] *Journals of Assembly of Nova Scotia,* 1839, pp. 600–601, March 22, 1839.

[39] *Journals of Assembly of New Brunswick,* 1839, pp. 455–456, March 13, 1839.

[40] *Journals of Assembly of Nova Scotia,* 1842, pp. 323–324, March 11, 1842.

and with other colonial markets.[41] Great Britain, however, now found again that in dealing with a sensitive colony well-meant efforts often provoked irritation. The Maritimes had been in the habit of importing some American flour and provisions via Canada and paying only intercolonial rates of duty (6 Wm. IV, c. 32, N.S.); now they were forced to buy in Boston and New York and pay higher duties, at which importers bitterly complained.[42]

The fight to have imperial duties retained for the protection they afforded raises a question as to protectionist sentiment in the Maritimes at this time. Certainly the lower provinces were as fervent in their devotion to the old colonial system while it served them as any other vested interest. The milling industry was not the only one the colonies sought to shelter behind imperial tariff walls. Nova Scotia and New Brunswick were not far behind Canada in petitioning for the maintenance of large preferences on colonial timber, and Nova Scotia was as forthright as any British group in condemning the West Indies when they complained of the burden of imperial restrictions. Even after Nova Scotia had come to appreciate the value of Huskisson's relaxations, she relapsed into purest mercantilism when the West India trade in lumber and fish was threatened.[43]

In exercising the limited control allowed colonies before 1846, the Maritime provinces did not foster the greatest possible freedom of trade. Nova Scotia showed itself quite conversant with the use of the tariff to build up home industry. The early adjustment of excise and impost for the benefit of the local distillery was a case in point, as was the policy of charging lower duties on West Indies goods bought with the produce of the colony. At times, Nova Scotia was even protectionist against the rest of British North America.[44] All types of fiscal encouragement to the

[41] *Journals of Assembly of New Brunswick,* 1843, p. 57, Stanley to Bagot, August 17, 1942.

[42] Innis, *Cod Fisheries,* p. 338.

[43] *Journals of Assembly of Nova Scotia,* 1842, p. 323, Address to Queen, March 11, 1842.

[44] See *Journals of Assembly of Nova Scotia,* 1820, p. 181, March 13, 1820 and *ibid.,* 1836, App. No. 1, p. 4.

fisheries were tried at one time or another. Bounties or drawbacks for the development of home industry were granted as freely in Nova Scotia as in other British colonies; for example, in 1833 a drawback was allowed to the manufacturer of leaf tobacco on the ground that the industry tended "to the employment of labourers and children" and was "otherwise beneficial to the interests of this province." (3 Wm. IV, c. 66, N.S.)

In the 1820's, when trade controversy with the United States was most bitter, the Assembly of Nova Scotia was eager to foster grain growing and trade in flour with the Canadas in place of "the ruinous flour trade" with the United States.[45] To that end, as we have seen, the Assembly in 1822 passed a bill "to encourage the agriculture and commerce of the province, by raising a duty on wheat and wheaten flour" from the United States.[46] But the Council, representing the mercantile interest, stood between the Assembly and protection. Ten years later the Agricultural Committee of the Assembly thought that the province could supply the inhabitants and troops with foodstuffs and have some surplus for export if only provincial duties, especially on wheat, were imposed.[47]

Throughout the 1830's, advocates of free trade in flour and grain frequently clashed with the protectionists, and manufacturers petitioned for protection for the milling and manufacturing interests. In 1838 manufacturers asked not only for a duty on all wheat flour but also for the valuation of goods at Nova Scotia prices instead of cost, on the ground that this would give more protection to local manufacturers.[48] In the controversy over the imperial duties protectionists dropped grain growing and concentrated on the preservation of a milling interest based chiefly on foreign wheat, but, in 1843, the Agricultural Committee of the Assembly warned that imperial legislation of 1842 gave the United States advantages that would "if not met by judicious

[45] *Journals of Assembly of Nova Scotia,* 1822, pp. 167–8, March 16, 1822.
[46] *Journals of Assembly of Nova Scotia,* 1822, March 25, 1822.
[47] *Journals of Assembly of Nova Scotia,* 1832, App. No. 8, April 11, 1832.
[48] *Journals of Assembly of Nova Scotia,* 1838, p. 278, February 16, 1838.

legislation on our part prove highly prejudicial to the general interests" of British North America, especially Nova Scotia.[49] The province taxed foreign flour until 1847, but grain remained free, and little protection can be found in the duties on other agricultural products.

By the 1840's, however, the protectionist sentiments of the 1820's had begun to wane. The livestock interest, which had been fostered by the maintenance of a provincial stud and rising duties from 1818 to 1834, found its protection reduced in 1844. The system of bounties also fell into abeyance. Cordage, which had received a bounty in 1826, was charged a revenue duty of 2½ per cent in 1848. Of the industries encouraged by bounties the refining of sugar, which had been fostered by bounties beginning in 1817, had collapsed by 1849.[50] The manufacture of tobacco survived but did not monopolize the market. Chocolate manufacture, which had such protection that the British had objected, maintained only a precarious existence.[51] Perhaps the best evidence that Nova Scotia's duties were not too highly protective came from Earl Grey who declared in 1848 that some of Nova Scotia's duties were protective but need not be disturbed unless they were levied on goods imported for the imperial forces.[52] Had they been very high Grey, who condemned Canadian duties roundly, would most certainly have objected.

Only two years before the reciprocity treaty, protectionist sentiment again appeared in Nova Scotia when Martin I. Wilkins, a member of the opposition in the Assembly moved "that in adjusting the tariff for the future, the principle of effective protection to all our industrial interests, be adopted and acted upon. . . ."[53] The Attorney-General, James B. Uniacke, countered with a motion pointing out that raw materials for Nova Scotia's industries were generally admitted free and that duties

[49] *Journals of Assembly of Nova Scotia,* 1843, App. No. 43, p. 165.

[50] *Journals of Assembly of Nova Scotia,* 1849, App. No. 13, pp. 163–164.

[51] *Journals of Assembly of Nova Scotia,* 1834–1835, App. No. 15, pp. 25–26.

[52] *Journals of Assembly of Nova Scotia,* 1848, App. No. 84, unpaged, February 25, 1848.

[53] *Journals of Assembly of Nova Scotia,* 1852, p. 143, March 13, 1852.

were imposed on "like manufactures when imported from abroad, partly for the purposes of revenue and partly for protection." He, therefore, moved: "That the increase of our present duties on British and foreign manufactured goods, for the purpose of protection, would be impolitic and unwise." [54] When the proposals came to a division, though the resolution condemning protection was voted down 20 to 27, an attempt to impose a 20 per cent duty on boots and shoes, furniture, cigars and snuff, coaches, wagons, wooden ware, and agricultural implements—the manufactures usually protected in New Brunswick and Canada—was also voted down and the previous tariff was continued.

The next year the protectionists returned to the assault, aimed especially at the United States. A report by a select committee advanced practically every argument heard later in the Dominion in favour of the National Policy in 1878. High United States tariffs supplied the principal argument. The goods which Nova Scotia imported from the United States paid on the average 6¼ per cent whereas if exported from Nova Scotia to the neighbouring Republic they would have paid 20, 30, or 40 per cent. Halifax manufacturers of iron castings, clothing, domestic wares, syrup, cordials, hats and caps, soap, boots and shoes, furniture, pails, buckets, and marble declared that they could produce better goods as cheap or cheaper than the Americans if they were protected. The adverse balance of trade with the United States was held responsible for the general depression. It was argued that specie was being drawn out of the province, depressing the value of property and forcing labourers to emigrate. Prosperity, it was contended, came from the home market, and protection to manufacturing would help the farmer. England, it was argued, had not adopted free trade until other countries tried to become independent of her manufactures by setting up protective duties. While free trade might be sound in principle, the relations of Nova Scotia and the United States "demand that our manufacturers and other industrial classes, . . . should be so far brought to a level with their rivals in that country as to receive at the hand of

[54] *Journals of Assembly of Nova Scotia,* 1852, pp. 149–150, March 19, 1852.

their legislature the same encouragement and protection of the home market as is awarded to their competitors."[55] While reciprocity with the United States quieted the protectionists, the fear of putting Maritime industries into competition with those of Canada contributed to the reluctance displayed in the Maritimes when Canada tried to broaden the base of intercolonial reciprocity in the early 1860's.

While protectionists in Nova Scotia were never very successful in translating their views into policy, their fellows in New Brunswick were more so. Even by 1827 the tariff of New Brunswick had begun to take on a protectionist slant. In the thirties the tariff continued to mount, and the reductions allowed on goods bought with provincial produce or imported in provincial ships were abandoned (2 Wm. IV, c. 8, N.B.). In 1834 New Brunswick inaugurated the policy of taxing British, as well as foreign, manufactures though at a lower rate (4 Wm. IV, c. 1, N.B.). In 1835 it laid a 5 per cent duty on leather and malt liquor which came from British North America (5 Wm. IV, c. 1, N.B.). In the late 1830's New Brunswick's specific duties were similar to those of Nova Scotia, though they were slightly higher than those of the neighbour colony on wines, spirits, and sugar and lower on horses and oxen.[56] But New Brunswick had certain ad valorem rates which were much higher and more discriminatory than those of Nova Scotia; clocks, watches, and household furniture were taxed 25 per cent, and soap and candles 10 per cent. While Nova Scotia's n.o.p. rate was 5 per cent, New Brunswick's was 2½ per cent on British manufactures and 10 per cent on foreign. Furthermore, while Nova Scotia's tariff was lowered in the 1840's, New Brunswick's rose until 1843 (6 Vict., c. 1, N.B.). In 1844 New Brunswick dropped its distinction between British and foreign goods to which the Colonial Office had objected and cut its n.o.p. rate to 4 per cent (7 Vict., c. 1, N.B.). At the same time, however, the province took steps to safeguard its own industries. Because of the change in imperial duties, tonnage duties on timber were re-

[55] *Journals of Assembly of Nova Scotia*, 1853, App. No. 45, p. 360.

[56] Cf. 6 Wm. IV, c. 32, N.S., and 7 Wm. IV, c. 1, N.B.

duced and an export duty imposed (7 Vict., c. 18, N.B.). Imported wheat was taxed in 1844 and a drawback was allowed on exported flour made from imported wheat (7 Vict., c. 38, N.B.). Before the repeal of the corn laws, however, New Brunswick rescinded all its duties on wheat and mill products (9 Vict., c. 1, N.B.), to go into effect April 1, 1846.

After the grant of colonial autonomy the Assembly of New Brunswick sitting as a Committee of the Whole resolved:

> That in enacting a Revenue Bill, by which the Trade of the Province will be regulated, the principle of protection to home industry, irrespective of Revenue, should be recognized, by levying Duties on those productions and manufactures of Foreign Countries which the people of this Province are capable of producing and manufacturing themselves, making a just discrimination between raw materials and manufactured articles, and as a general rule admitting raw materials Duty free.[57]

The act (11 Vict., c. 1, N.B.) which followed in 1848 reverted to different rates on British and foreign goods, the general rate for British was 4 per cent, while that on foreign was raised to 15—5 per cent above its previous level. The highest rate in the whole tariff, 30 per cent, was charged on foreign boots and shoes while the British rate was 4 per cent. While Nova Scotia failed to vote a 1*s.* per barrel duty on wheat flour, New Brunswick levied 1*s.* on British flour and 2*s.* on foreign.[58] Thus New Brunswick celebrated its commercial autonomy by raising its tariff and embracing protection more closely. But this act was soon superseded by one which established the n.o.p. rate at 7½ per cent with the highest rate 20 per cent on boots and shoes, carriages, furniture, clocks, oranges, lemons, wooden ware, hats, pianos, cigars, and snuff (12 Vict., c. 18, N.B.). On the eve of reciprocity a 7½ per cent levy on castings for machinery, 15 per cent on castings of ploughs and stoves, and 30 per cent on carriages, wooden ware, matches, and agricultural implements, except ploughs, made their appearance (14 Vict., c. 5, N.B.).

[57] *Journals of Assembly of New Brunswick,* 1847, p. 190, March 10, 1847.
[58] *Journals of Assembly of Nova Scotia,* 1847, pp. 645–649, March 12, 1847.

Attention will now be directed to the series of events in commercial policy that led up to Confederation. While the closing years of the corn law period were not characterized by the friction in the Maritimes that distinguished them in Canada, they were not without problems. Reluctant to concede fiscal and trade autonomy to the colonies, Britain tried to maintain uniformity of colonial duties. In 1834 the Colonial Office disallowed an act of the legislature of Prince Edward Island which levied special duties on products from the British West Indies. The action was taken on the ground that one colony should not unilaterally place a burden on the products of another. The veto was subsequently waived, however, on the understanding that fiscal necessity required the tax.[59]

The West Indies chafed at the system of imperial preferences from which they did not obtain any real trading benefits. The Maritimes, on the other hand, struggled to retain the preferences on timber and fish. By 1842 their defeat in the long struggle to reap the advantages of a favoured position in a mercantilist empire was already forecast.[60] Before 1846, therefore, intercolonial and intra-empire economic ties were loosening. Canada set the example by levying higher duties on some Empire goods passing through Halifax than on direct shipments to Canadian ports. The British Possessions Act of 1842, by imposing duties on American products entering Canada, stopped the Maritimes from importing American provisions through Canada at rates similar to those charged on Canadian products. Stanley, the Colonial Secretary, set forth the policy of the mother country in a circular to the colonial governments on June 28, 1843.[61] He instructed the colonial governors to disallow all differential and discriminatory duties that might, in future, be adopted by colonial legislatures, including those granting preferred treatment to British goods.

The Enabling Act of 1846, which empowered the colonies to abolish all preferences in favour of British goods, and the repeal

[59] P.A.C., Series G, vol. 273, p. 89, Spring Rice to Sir A. W. Young, July 23, 1834.

[60] *Journals of Assembly of Nova Scotia,* 1842, p. 323, March 11, 1842.

[61] *Journals of Assembly of Nova Scotia,* 1844, App Nos. 7 and 9, pp. 14–17.

TABLE 4

COLONIAL DUTIES, 1851–1866

| Article | Canada 1851 | Canada 1866 | Nova Scotia 1851 | Nova Scotia 1866 | New Brunswick 1851 | New Brunswick 1866 | Prince Edward Island 1851 | Prince Edward Island 1866 |
|---|---|---|---|---|---|---|---|---|
| Cotton warp | 12½% | 15% | 6½% | 10% | 1% | 4% | 5% | 10% |
| Cotton manufactures N.O.P. | 12½% | 15% | 6½% | 10% | 7½% | 15½% | 5% | 10% |
| Axes | 12½% | 15% | 6½% | 10% | 1s. 6d. | 15½% | 5% | 10% |
| Wood, timber, lumber from B.N.A. & U.S. | 12½% | free | free | free | free | free | free | free |
| Hardware N.O.P. | 12½% | 15% | 6½% | 10% | 7½% | 15½% | 5% | 10% |
| China | 12½% | 15% | 6½% | 10% | 7½% | 15½% | 5% | 10% |
| Chains | 2½% | 15% | 6½% | 5% | 1% | 4% | free | 10% |
| Hides from B.N.A. & U.S. | 2½% | free | free | free | 1% | free | 5% | free |
| Linen | 12½% | 15% | 6½% | 10% | 7½% | 15½ | 5% | 10% |
| Matches | 12½% | 15% | 6½% | 10% | 7½% | 18% | 5% | 12½% |
| Woolen manufactures | 12½% | 15% | 6½% | 10% | 7½% | 15½% | 5% | 10% |
| Molasses | 3s. cwt. & 12½% | 73¢ cwt. | 2½d. gal. | 5¢ a gal. | 1d. a gal. | 3% & 2¢ a gal. | 1½d. a gal. | 5½¢ a gal. |
| Steel, bars & sheets | 2½% | free | 6½% | 5% | free | 4% | 5% | 5% |
| Silk | 12½% | 15% | 6½% | 10% | 7½% | 15½% | 5% | 10% |
| Tin, block & plate | 12½% | free | 6½% | 10% | free | 4% | 5% | 10% |
| Agricultural implements | 12½% | 15% | 6½% | 10% | 30% | 17½% | 5% | 10% |
| Wearing apparel | 12½% | 15% | 6½% | 10% | 10% | 15½% | 5% | 12½% |
| Boots & shoes | 12½% | 15% | 10% | 10% | 20% | 18% | 5% | 12½% |

TABLE 4 (Continued)

| Article | Canada 1851 | Canada 1866 | Nova Scotia 1851 | Nova Scotia 1866 | New Brunswick 1851 | New Brunswick 1866 | Prince Edward Island 1851 | Prince Edward Island 1866 |
|---|---|---|---|---|---|---|---|---|
| Cloth, N O P. ........ | 12½% | 15% | 6½% | 10% | 7½% | 15½% | 5% | 10% |
| Coffee, green.......... | 4s 8d cwt. & 12½% | 3¢ a lb. | 1d. a lb. | 4¢ a lb. | 1½d. a lb. | 2½¢ a lb. & 3% | 5% | 3¢ a lb. |
| Wheat flour, B.N.A. & | free B N.A. | free B.N.A. | free B.N A. | free B.N.A. | free B.N.A. | free | free B.N.A. | free |
| U S...... ...... .. | 20% | 50¢ bbl. | 1s. bbl. | 25¢ a bbl. | 3s. a bbl. | | 5% | |
| Glass, N.O P.... .... | 12½% | 15% | 6½% | 10% | 7½% | 15½% | 5% | 10% |
| Hosiery . .. . | 12½% | 15% | 6½% | 10% | 7½% | 15½% | 5% | 10% |
| Iron, pig & bloom, B.N.A. | 2½% | free | free | free | 1% | free | free | free |
| Machinery .......... | 12½% | 15% billed factory free | 6½% | 5% | 7½% | 15½% | 5% | 10% |
| Nails ............ | 12½% | 15% | 6½% | 10% | 7½% | 15½% | 5% | 10% |
| Coal oil... ....... .. | 12½% | 10¢ a gal. | 6½% | 7¢ a gal. | 7½% | free B.N.A. 3% & 6¢ | 5% | 10¢ a gal. |
| Leather manufactures . | 12½% | 15% | 10% | 10% | 20% | 18% | 5% | 10% |

of the corn laws did not mean, as Canada's struggle with British officialdom has already shown, that the mother country intended to maintain a completely hands-off attitude toward colonial commercial policy. Though Grey took no steps against Nova Scotia's duties of 1848, which he considered protectionist, he turned a deaf ear to New Brunswick's pleas for a bounty on hemp because he said "experience has so fully demonstrated the impolicy of artificially directing capital and industry into channels which they would not naturally follow. . . ."[62] He regretted New Brunswick's dissatisfaction with the governor's instructions to withhold assent to any act "in contravention of that system of commercial policy which the Imperial Parliament and Her Majesty's Government have judged it advisable to adopt with a view to the interests of the Empire at large."[63]

Britain was not averse, however, to promoting intercolonial trade if measures taken meant freer trade between the colonies. The Colonial Office urged, from time to time, that the North American colonies form a customs union after the manner of the German *Zollverein*. A uniform system of duties would be adopted as far as the mother country and the outside world were concerned. In fact mutual need for export markets and the loss of their sheltered position in Britain began to draw the commercial interests in the Maritimes towards Canada in the 1840's. In 1847 Nova Scotia offered to admit the products of any British North American colony free of duty, providing that colony would reciprocate. This was parallel to Canada's more limited offer of reciprocal elimination of duties on a selected list. Believing that the groundwork for intercolonial reciprocity was complete, and anticipating a speedy culmination of arrangements, Nova Scotia shipped cargoes to Canada, only to find that no action had been taken, and that Hincks, the Inspector-General of Canada, was hostile to removing duties on items such as refined sugar on which

[62] *Journals of Assembly of Canada,* 1856, App. No. 28, Grey to Lieut.-Gov. of New Brunswick, March 2, 1848.

[63] *Journals of Assembly of Canada,* 1856, App. No. 28, Grey to Lieut.-Gov. of New Brunswick, Nov. 1, 1850.

TABLE 5

IMPORTS AND EXPORTS, 1850–1875

| | (1) Total Imports ($1000) | (2) Exports Home Produce ($1000) | (3) Exports Foreign Goods ($1000) | (4) Total Exports ($1000) | (5) Imports from U S A ($1000) | (6) Exports to U.S.A. of Home Produce ($1000) |
|---|---|---|---|---|---|---|
| *1850* | | | | | | |
| Canada | 16,982 | 12,944 | . . | 12,944 | 6,595 | 4,951 |
| N. S. | 3,600 | 1,550 | . . | 1,550 | 1,028 | 428 |
| N. B. | 4,078 | 3,290 | . . | 3,290 | 1,311 | 387 |
| P. E. I. | 630 | 326 | | 326 | 42 | 55 |
| Total | 24,290 | 18,110 | . . | 18,110 | 8,976 | 5,821 |
| *1855* | | | | | | |
| Canada | 36,086 | 28,188 | . . . . | 28,188 | 20,829 | 16,737 |
| N. S | 9,414 | 7,833 | . . . | 7,833 | 3,692 | 2,407 |
| N. B | 7,157 | 4,132 | . . . . | 4,132 | 3,914 | 616 |
| P. E. I. | 1,342 | 736 | . . . | 736 | 261 | 167 |
| Total | 53,999 | 40,889 | . . | 40,889 | 28,651 | 19,927 |
| *1860* | | | | | | |
| Canada | 34,448 | 34,632 | . . | 34,632 | 17,273 | 18,428 |
| N S. | 8,512 | 6,620 | . . | 6,620 | 3,259 | 2,232 |
| N. B. | 7,234 | 4,582 | . . . . | 4,582 | 3,441 | 1,242 |
| P. E I. | 1,150 | 981 | 26 | 1,007 | 282 | 391 |
| Total | 51,344 | 46,715 | 26 | 46,841 | 24,255 | 22,293 |
| *1865* | | | | | | |
| Canada | 44,620 | 42,481 | . . . . | 42,481 | 19,589 | 22,940 |
| N. S. | 14,382 | 8,831 | . . . . | 8,831 | 4,326 | 3,620 |
| N. B. | 7,087 | 5,535 | . . | 5,535 | 3,056 | 1,737 |
| P. E. I. | 1,905 | 1,458 | . | 1,458 | 440 | 605 |
| Total | 67,994 | 57,305 | . . . | 57,305 | 27,411 | 28,902 |
| *1870* | | | | | | |
| Canada | 59,021 | 57,528 | 4,939 | 62,467 | 20,625 | 24,898 |
| N. S. | 8,941 | 5,115 | 689 | 5,803 | 2,258 | 1,474 |
| N. B. | 6,854 | 4,403 | 900 | 5,303 | 1,823 | 2,401 |
| P. E. I. | 1,929 | 2,101 | 54 | 2,154 | 228 | 404 |
| Total | 76,745 | 69,147 | 6,582 | 75,727 | 24,934 | 29,177 |
| *1875* | | | | | | |
| Canada | 95,560 | 52,546 | 7,097 | 59,643 | 41,009 | 21,982 |
| N. S | 11,532 | 6,446 | 533 | 6,979 | 3,444 | 1,548 |
| N. B. | 10,231 | 6,050 | 493 | 6,543 | 3,696 | 1,438 |
| P. E I. | 1,960 | 1,301 | 7 | 1,308 | 346 | 363 |
| Man. | 1,243 | 589 | . . . | 589 | 482 | 371 |
| B. C. | 2,544 | 2,777 | 48 | 2,825 | 1,526 | 2,151 |
| Total | 123,070 | 69,709 | 8,178 | 77,887 | 50,503 | 27,853 |

Canadian revenues principally depended. The latter also called attention to the danger to Canadian industries of competition from the sugar, tobacco, and leather goods producers in the Maritimes.[64] Nova Scotia replied by emphasizing that she had no manufactures of consequence. In 1848 New Brunswick also offered reciprocity to Canada in all products except spirits. Prince Edward Island, however, held back, preferring free trade with the United States which, leaders in the colony thought, might be obtained independently of the other colonies at this time. Canada still limited her offer to natural products. In 1850 the colonies granted each other free admission of a list of foodstuffs and raw materials.[65]

Despite the apparent indifference of Canada to intercolonial trade her commerce with the eastern colonies exceeded a half million pounds sterling per annum by the eve of reciprocity with the United States. Canada had a consistently favourable balance. Almost all Canadian imports from the Maritimes came from Nova Scotia and Newfoundland, and all but about £20,000 came by way of the St. Lawrence. Free goods under the reciprocity arrangement predominated.[66] The trade of the seaboard colonies and of Canada before and immediately after Confederation is shown in Table 5. In 1850 the exports of the three colonies, Nova Scotia, New Brunswick, and Prince Edward Island, amounted to about one-third of Canada's total exports. In that year the United States was taking about one-third of all colonial exports.

By 1851 legislatures in Canada and the Maritimes had tried their hands as autonomous tariff-making bodies. A comparison of their efforts is of interest. Canada had a general rate of 12½ per cent which covered the major portion of her import list. Nova Scotia's comparable rate was 6½ per cent, New Brunswick's rate was 7¼ per cent, and Prince Edward Island's was 5 per cent.

[64] *Journals of Assembly of Nova Scotia,* 1849, App. No. 13, pp. 161–162.

[65] *Journals of Assembly of Nova Scotia,* 1849, App. No. 13, pp. 161–162; 13 & 14 Vict., c. 3, Canada; 13 Vict., c. 51, N.S.; 13 Vict., c. 2, N.B.; 13 Vict., 2nd Sess., c. 1, P.E.I.

[66] Report on Trade and Commerce, *Journals of Legislative Assembly of Canada,* 1854–1855, App. No. 14, App. D.D.D.D., Tables Nos. 1 and 2.

Revenue duties on tobacco and liquors were also higher in Canada, and the free list was broader in the Maritimes. In 1851 the average revenue per head from the customs was 6*s.* 7¼*d.* for Nova Scotia; 5*s.* 8¼*d.* for Prince Edward Island; 8*s.* 2¼*d.* for Canada, and 10*s.* 11¾*d.* for New Brunswick.[67]

As Canada and Prince Edward Island were unwilling to grant colonial reciprocity on manufactured products in the early 1850's, complete intercolonial free trade was postponed while the campaign for reciprocity with the United States was pushed. The first efforts in the Maritimes to obtain reciprocity have been described above. While Nova Scotia hung back, New Brunswick took a leading part in the early stages of the negotiations. Arguing that the depression of 1849 made reciprocity with the United States imperative, New Brunswick urged that, if necessary, the United States be admitted to full participation in the fisheries—a sentiment that Nova Scotia could not share. When an intercolonial conference to consider reciprocity was held at Halifax, on New Brunswick's suggestion, Nova Scotia sent observers rather than representatives. If concessions were to be granted on the fisheries Nova Scotia wanted admission to the United States coasting trade and the opening of United States registry to colonial ships.[68] Nevertheless, like the other colonies, Nova Scotia in 1850 held out an offer of reciprocity in trade to the United States by concurrent legislation (13 Vict., c. 58, N.S.). While Nova Scotia wished for reciprocal admission of natural products, the colony contended that Britain should restrict rather than extend fishing privileges.[69]

As reciprocity was widely regarded as a fairly satisfactory substitute for lost commercial advantages in the West Indies and the United Kingdom, Canada took the lead in pushing the issue because the St. Lawrence colony had much the largest stake in trade with the United States. In 1853 45.7 per cent of Canada's total

[67] Report on Trade and Commerce, *Journals of Legislative Assembly of Canada*, 1854–1855, App. D.D.D D., Tables Nos. 3 and 4.

[68] *Journals of Assembly of Nova Scotia*, 1850, pp. 516–517, March 1, 1850.

[69] *Journals of Assembly of Nova Scotia*, 1852, App. No. 17, pp. 117–118, Petition to Queen, Jan. 20, 1852.

exports went to the United States, 25.8 per cent of Nova Scotia's, 11.4 per cent of New Brunswick's, and 21.1 per cent of Prince Edward Island's.[70] Adding to her sense of grievance when concessions in the fisheries were offered, Nova Scotia felt she had been slighted in the preliminaries to Elgin's negotiations in Washington. Therefore, while the other provinces ratified the treaty with fair alacrity, Nova Scotia did so only when faced with the imperial government's determination to ratify without her consent.[71]

The economic consequences of reciprocity have been widely debated. Like many good things it was received with mixed emotions, enjoyed with scant appreciation, and widely mourned when it was gone. Exports from the colonies to the United States increased throughout the period although most of the expansion occurred in the first eight years of its duration (see Table 5). The American market was much more important to Canada than to the Maritimes during and after reciprocity, though the gains of the latter were substantial in a relative sense. New Brunswick, as had been anticipated, reaped the greatest advantage from the opening of the lumber trade to the seaboard states on a duty-free basis. The proportion of that colony's exports going to the United States increased from 11.4 per cent in 1853 to 31.4 per cent in 1865. The United States increased her takings of Nova Scotian exports from 25 per cent in 1853 to 40 per cent in 1865, and of Prince Edward Island's from 25 per cent to 42.7 per cent. As Table 5 shows, the gains of the United States in the markets of the Maritimes were substantial but less in amount and less well sustained than the above.[72]

The dominant factor of the decline in the relative importance

[70] S. A. Saunders, *Economic History of Maritime Provinces*, a Study prepared for the Royal Commission on Dominion-Provincial Relations (Ottawa: King's Printer, 1939), p. 7.

[71] *Journals of Assembly of Nova Scotia*, 1854–1855, App. No. 1, pp. 5, 7, 15, and 18, and *Journals of Legislative Council*, 1854–1855, pp. 21 and 25.

[72] All British North American colonial exports to the United States amounted to $20,000,000 in 1855 and $29,000,000 in 1865. In 1870, five years after the abrogation of the treaty, Canadian exports to the Republic were practically unchanged though total Canadian exports had increased 25 per cent.

of American shipments to the Maritime colonies after 1860 was the Civil War. The war also increased the profitableness of the American market. As Dr. Saunders has pointed out, the advantages of low transportation costs by sea, to Boston and other Atlantic coast ports from Halifax and St. John, was most important before the United States had completed her trunk railway lines to the interior.[73] Prior to 1860 the colonies enjoyed a comparative advantage that American internal development would have mitigated even if free trade in coal, lumber, and fish had been retained.

While exports from the colonies were flowing southward in increased volume, intercolonial trade also flourished. In 1859 Canada imported $275,000 worth of goods from the Maritimes via the St. Lawrence; by 1865 the total was over $220,000. Sugar was the largest export to Canada together with molasses, wine, rum, coffee, tea, tobacco, cottons, woolens, iron, hardware, and fish products. This list reveals the *entrepôt* character of much of this trade. Canada sent over $600,000 of agricultural products to Nova Scotia in 1861 out of total exports to the colony of slightly more than a million dollars. New Brunswick was an even larger importer of Canadian farm products. After abrogation of reciprocity, trade both to and from Canada boomed, as much of the trade formerly routed through the United States now came direct. Canadian shipments to the other colonies increased three and a half times between 1863 and 1867.[74]

The economic results of the ending of reciprocity are swallowed up in its political sequel, Confederation. On the economic side the movement towards union was a natural growth, in which the reciprocity arrangements of 1850 and 1854 were incidents. Despite the early opposition of Canada to complete customs assimilation and intercolonial free trade, Galt proposed a plan for intercolonial free trade in 1859, only to have his project condemned by the British Board of Trade as compromising the principle of

[73] See S. A. Saunders, "Maritime Provinces and the Reciprocity Treaty," *Studies in Economy of the Maritime Provinces* (Toronto: Macmillan, 1939), pp. 107 and 112.

[74] See *Sessional Papers, Canada,* 1860–68, Reports on Trade and Navigation.

non-discrimination.[75] That body particularly opposed the assimilation of Maritime to Canadian tariff levels. Opposition softened, however, and in 1861 Newcastle, who had been emphatic in his opposition to discriminatory duties a year and a half before, wrote that Her Majesty's Government would now offer no opposition.[76] At an intercolonial conference the following year, the colonies decided to postpone complete reciprocity until their fiscal positions improved. The Maritimes were unwilling to assume the heavy revenue duties of Canada and hesitated to place their industries in competition with "the larger and more advanced industries of Canada." [77]

After 1864 the attention of the colonies turned definitely away from halfway measures, such as a customs union, and towards legislative or federal union. Impetus came from the threatened abrogation of reciprocity with the United States. An important step was the Confederate Council which met at Quebec in 1865 to advise the British government in the negotiation of commercial treaties. Besides adopting resolutions relating to the renewal of the reciprocity treaty and to trade expansion in the Spanish West Indies and Central and South America,[78] the Council also decided that broader questions of colonial commercial policy should be settled henceforth by common and united action. The decisive motion was, "That in event of the abolition of the reciprocity Treaty by the United States Government, it is the opinion of this council that all the British North American Provinces should combine cordially together in all commercial matters and adopt such a common commercial policy as will best advance the interests of the whole." [79]

[75] See *Journals of Assembly of Nova Scotia,* 1860, App., pp. 329–333, esp. p. 332.

[76] *Journals of Assembly of Nova Scotia,* 1860, p. 335, and 1862, App. No. 22, p. 1.

[77] *Journals of Assembly of Nova Scotia,* 1863, App. 62, p. 1.

[78] A commission was sent to Latin America and the West Indies to report on commercial opportunities. See Canada, *Sessional Papers,* vol. XXVI (1866), No. 4, Paper No. 43.

[79] *Macdonald Papers,* Reciprocity Treaty 1865–66, Minutes of the Confederate Council at Quebec, 1865.

It was from this commercial conference that the broader proposals for a confederation emerged.

Political deadlock rather than economic motives, however, probably played the decisive role in the final stages of the Confederation movement in Canada. In the Maritimes a plan for legislative union of the three provinces was already under way. "The hope of creating a national economy with expanding frontiers and improved communications may be regarded as the central economic aspiration of the union movement." [80] Many in the Maritimes, however, feared the trade would be all one-way, owing to Canada's advantages as a manufacturing as well as an agricultural colony.

The industrial record in the Maritimes gave ground for this belief. In 1866 fish made up 40 per cent of Nova Scotia's exports, minerals 16 per cent, forest products 11 per cent, agricultural products 20 per cent, and manufactures and other exports 12 per cent. In the simpler economy of New Brunswick 70 per cent of the exports were forest products. Over one-half the remainder were ships in which the lumber was exported.[81] The wooden ship industry was already being threatened by the steel steamer. Civil War years brought a temporary prosperity, but this was soon to collapse. Railways seemed to offer a solution. By Confederation New Brunswick and Nova Scotia had 379 miles of railway, which had added $10,500,000 to their debts.[82]

Mining, except for gypsum and small quantities of coal, had been slow in developing. Nevertheless, gold production in Nova Scotia reached 27,583 ounces by 1866.[83] The real basis of industry, however, lay in coal. In 1856, after the monopoly of the General Mining Association was broken, production and export increased enormously. Exports rose from 103,322 tons in 1855 to

[80] Creighton, "British North America at Confederation," p. 45.

[81] Royal Commission, *Report on Dominion-Provincial Relations,* 3 vols. (Ottawa: King's Printer, 1940), I, 23.

[82] *Report on Dominion-Provincial Relations,* I, 25.

[83] Innis and Lower, *Select Documents, op. cit.,* p. 714.

465,194 in 1865.[84] In 1863 the United States imported 263,374 tons, British North America 58,233 tons, and Nova Scotians consumed 75,529 tons.[85] No efforts were made to exploit the iron ore deposits in the Maritime provinces until the 1820's when two

TABLE 6

IMPORTS AND EXPORTS, 1865

| | Nova Scotia | | P E. Island | | New Brunswick | |
|---|---|---|---|---|---|---|
| | Imports | Exports | Imports | Exports | Imports | Exports |
| Great Britain | 6,316 | 765 | 801 | 328 | 2,284 | 2,595 |
| Canada | 509 | 438 | 37 | 10 | 247 | 86 |
| New Brunswick | 694 | 478 | 222 | 129 | .... | .... |
| Newfoundland | 186 | 469 | 16 | 72 | 4 | 13 |
| Prince Edward Island | 203 | 316 | .... | .... | 116 | 100 |
| Br. West Indies | 667 | 1,966 | 24 | 37 | 0 | 0 |
| Fr. West Indies | 12 | 153 | 0 | 0 | 0 | 0 |
| Spanish West Indies | 1,273 | 381 | 0 | 0 | 0 | 0 |
| United States | 4,326 | 3,620 | 454 | 655 | 3,056 | 1,737 |
| France | 49 | 2 | 0 | 0 | 32 | 15 |
| Portugal | 46 | 9 | 0 | 0 | 0 | 2 |
| Holland | 25 | 0 | 0 | 0 | 3 | 2 |
| Spain | 52 | 10 | 0 | 0 | 9 | 9 |
| Nova Scotia | .... | .... | 351 | 274 | 1,071 | 569 |
| Other | 24 | 224 | 0 | ...* | 265 | 407 |
| Total | 14,382 | 8,831 | 1,905 | 1,505 | 7,087 | 5,535 |

* Not available, assumed negligible.

attempts were made in Nova Scotia. The first, in Annapolis County, begun in 1825 with governmental encouragement, soon closed because of lack of skill in manufacture, poor quality of ore, and the cost of obtaining limestone. Several efforts were made prior to 1874 to revive this plant, but all failed. A second furnace set up in 1827 failed for similar reasons. Between 1848 and 1865 four attempts were made to exploit iron at Woodstock, New Brunswick, but all were abandoned and never renewed. In 1856 furnaces were built at Nictaux Falls, Nova Scotia, and soon abandoned. In 1860 a furnace was built at Bloomfield, Nova

[84] Innis and Lower, *Select Documents*, p. 707.

[85] Creighton, "British North America at Confederation," p. 26.

Scotia; this was reported in blast several times prior to 1880.[86] The most successful iron enterprise in Nova Scotia was begun at Londonderry in 1850. As long as rail transport was lacking, this plant used charcoal for fuel and had difficulty getting its product to market. It, therefore, exerted itself to get the Intercolonial Railway as close to the plant as possible. Prior to Confederation, the Maritimes had one plant for the production of finished iron products—a rolling mill at St. John.

Though abrogation of the reciprocity agreement forced the Maritimes to draw closer to Canada, lively opposition to Confederation arose in Nova Scotia largely because of misgivings regarding the probably economic consequences of the "restrictive" commercial policy of Canada if applied to that colony. Nevertheless, the bases for compromise were not absent as Nova Scotia and New Brunswick needed assistance in financing public works, particularly railways. Furthermore, while the tariffs were far apart on many items, all the Maritime provinces had raised their duties when the reciprocity treaty was abrogated. In Nova Scotia by 1866 the general rate of ad valorem duty had been increased from 6½ per cent, the level of 1851, to 10 per cent to meet the railway and public works expenditures of that colony. In New Brunswick 15½ per cent was the most popular rate instead of the 7½ per cent of 1851, and in Prince Edward Island the 5 per cent rate had been doubled by 1866. There was little difference between duties in Nova Scotia and Prince Edward Island, but in New Brunswick rates were somewhat higher, and compound duties were more common. In the meantime, Galt had lost his belief in protection and stood ready to revise the Canadian tariff downward.

In 1866 the Canadian government adopted a new tariff calculated to restore duties on commodities which had enjoyed free entry under reciprocity and to bring the Canadian list more into conformity with tariffs in the Maritimes so that it might stand after Confederation as the tariff for the new Dominion (29 & 30 Vict., c. 6, Prov.). A comparison of the new tariff rates with the tariffs of the Maritime colonies is shown in Table 4. The general

[86] Donald, *Canadian Iron and Steel Industry*, pp. 55–58.

list in Canada was reduced from the 1859 level of 20 per cent to 15 per cent. The most notable achievement of the act, however, was the apparent reversal of a trend in Canada toward higher duties on imports of manufactured goods such as textiles, clothing, farm machinery, and partially fabricated metal products. Specific duties at less than 1859 levels were placed on spirits, refined and raw sugar, molasses, and tobacco. Reductions were made in these commodities as specific duties replaced the high ad valorem duties of 1859 which had ranged up to 100 per cent on spirits and cordials. Items in the 30 per cent list of 1859, including spices and patent medicines, were for the most part reduced to 25 per cent. Likewise, the 25 per cent list of 1859 was reduced to 15 per cent in 1866 on leather goods, boots, shoes, and clothing. In 1866 this list included almost all kinds of clothing, glass, hardware, locomotives, and railroad cars. A specific duty of 7 cents per pound and 15 per cent ad valorem was applied to tea. This represented an addition of 7 cents to the 1859 level.

The act restored the duties on natural products and manufactures thereof, which had been free under reciprocity. Specific duties were 4 cents for butter, 3 cents for cheese, and 50 cents a barrel for wheat flour. Grain, excepting wheat, was subject to a duty of 10 cents a bushel, and meat to 1 cent per pound. Metals, iron and steel, railroad bars, sheet scrap iron, and similar partly fabricated products were placed on the free list. Agricultural and animal products, otherwise dutiable, came in free of duty from British North America, and other products could be added to the list under order-in-council. An innovation of some importance was the adoption of an export duty on sawn logs and shingle bolls of pine at $1.00 per thousand board feet, and on spruce at 50 cents per thousand board feet when destined for any market other than British North America.

The rule for evaluation of goods for ad valorem duty purposes was very explicitly stated in 1866, "The fair market value for duty, of goods imported into this Province, shall be the fair market value of such goods [in the principal markets of the country whence the same were exported directly to Canada] in the usual

and ordinary commercial acceptance of the term. . . ."[87] If cash was the usual method of making payment then cash value was to be used; otherwise the value of the ordinary credit terms was applicable, and no discounts for cash were allowed in deduction from the fair market value. This principle of valuation was carried over into the post-Confederation tariff of the Dominion.

Canada thus entered the Confederation having accepted some compromise with her commercial policy of the 1850's. Economic and political forces moulding Canadian commercial policy during the decades that followed centred around the problem of effecting a compromise among sectional interests so that any discriminatory treatment of commerce to the benefit of industry might be accomplished without political disruption. Federal union was brought to the Maritimes at a time when their economy—based on foreign trade, wooden ships, fishing, and lumbering—was being seriously threatened by the iron steamship and loss of preferences, first in the West Indies, then in the mother country, and lastly in the United States. The natural advantage of an exposed position much closer to Europe than either the St. Lawrence ports or New York was not important when steam speeded up ocean travel, and the expense of establishing rail communications with either Canada or the United States bade fair to bankrupt the colonies without accomplishing its object of making the Maritimes the focal point for fast traffic to Europe from Boston, Montreal, and New York. After the coming of the steamship it became evident that only by indigenous industrial development could the Maritimes, especially Nova Scotia, hope to continue the economic advancement of the past. Would the political weight of the small population of these provinces be sufficient to mould Dominion economic policy in their interests? It was the misgivings over the answer to this question that made Maritime leaders reluctant to enter Confederation.

In this chapter we have traced the disappearance of mercantilist restrictions in the Maritime colonies under the pressure of colonial needs, made possible by the changing economic philoso-

[87] 29 & 30 Vict., c. 6, sec. 11, Provincial.

phy of the mother country. The attempt of the colonies to retain those elements of the old policy that fitted their particular self-interest, namely, monopoly of the *entrepôt* trade with the West Indies, failed because of the aggressiveness of United States commercial interests, dissatisfaction in the Indies, and the insufficiency of colonial resources for the trade at hand. Flirtations with protection by agriculture and industry occurred in the seaboard colonies as elsewhere but were accompanied by the equally strong desire to preserve the advantages of low cost production in lumbering and the fisheries. The desire for wider markets by the commercial interests of the Maritime colonies, together with the conciliatory policy of Canada in assimilating her tariff to that of the Maritimes, in 1866 effected a temporary compromise between the diverse economic objectives of two sections of British North America and helped to make Confederation possible.

# CHAPTER VI

## REVENUE TARIFF

"AT THE TIME of Confederation Canada was just beginning to emerge from the commercial into the industrial age." [1] Agriculture and trade remained the basic occupations of the population of Ontario and Quebec while lumbering, fishing, ship-building, and sea-borne commerce dominated New Brunswick and Nova Scotia. Prince Edward Island, the agricultural centre of the Maritimes, was still outside the new Dominion. The tempo of industrialization increased in the first decade of Confederation, especially in the central provinces, and by 1878 the manufacturer and the industrial worker were political forces of the first rank. During the years immediately after 1867, however, the issue of protection versus free trade, which had been raised in the 1850's, was of lesser importance. Attempts to obtain a renewal of reciprocity with the United States were of greater immediate concern.

The abrogation of the reciprocity treaty was offset by high post-war prices in the United States and a rising foreign exchange value for the American dollar, so that the unneighbourly act of abrogation resulted in but a temporary setback to Canadian exports. Although purchases by the United States from British North America were reduced from the abnormal $48,000,000 of 1866, the last year of reciprocity, to about $25,000,000 in 1867, by 1870 the United States was absorbing more Canadian goods than during any but the last year of the Elgin-Marcy treaty. Nevertheless, the reciprocity issue remained very much alive in Canada and, together with railroad construction, was a leading topic of public interest during the first decade of Confederation in spite of the rebuffs of 1864 and 1865. The offer of reciprocity in fish, lumber, grains, and animals was held out to the United States in early Canadian tariffs. Diverse reports on reciprocity were submitted to the United States government, and Canadians

[1] *Report on Dominion-Provincial Relations,* I, 33.

believed that renewal of the trade agreement was highly probable when tempers aroused by Civil War disputes had cooled.

Both Canadian and British statesmen were eager to secure a renewal of the Elgin-Marcy treaty, perhaps appreciating its value more after abrogation than before. Nor were they without support in Washington although Civil War memories, the provincial tariffs of pre-Confederation Canada, and the unfavourable balance of trade of the United States handicapped their efforts. In April 1868 David A. Wells and George W. Brega, then employees of the United States Treasury and proponents of freer trade, asked the Canadian government to take the initiative in negotiations, and the House of Representatives passed a resolution favouring reciprocity.[2] In June 1869 Secretary of State Hamilton Fish invited the British Minister, Thornton, to discuss the North Atlantic inshore fisheries and commercial relations. These two subjects had been linked together in previous negotiations, to the dismay of Nova Scotia, and now with the initiative coming from Washington chances for a trade agreement seemed good. Sir John Rose, who was in Washington at the time, acted as emissary of the Macdonald government. His discussions with Fish covered access to the inshore fisheries and to inland waterways and reciprocity in some manufactured articles, as well as natural products. Since Fish was not willing to press the matter with a recalcitrant Congress, the negotiations failed.[3] Prince Edward Island, not yet in the Dominion, expressed a desire for the establishment of free trade with the United States and for a local settlement of the fisheries question. This was not regarded favourably by the British government as the other colonies were excluded, and these negotiations were dropped.[4] Later in 1869

[2] Many years later a political opponent of Macdonald declared that the latter supplied Brega with a large sum in gold to work for the renewal of reciprocity at this time. *Macdonald Papers,* Commercial Relations with the United States, pp. 50–51, E. A. C. Pew to Sir John Macdonald, October 28, 1889.

[3] A. H. U. Colquhoun, "Reciprocity Negotiations with the United States in 1869," *Canadian Historical Review,* VIII, 233–242.

[4] P.A.C., Series G, vol. 321, p. 51, Dundas of P.E.I. to Buckingham, July 29, 1868.

the Grant administration came out against a renewal of the old reciprocity treaty, and the lumber and coal interests, its arch foes in Congress, showed enough strength to assure defeat.[5]

The idea of a commercial union or American *Zollverein,* which would eliminate all tariffs between Canada and the United States, however, had some support in Congress. Prior to the abrogation of reciprocity Representative Elijah Ward and special investigator James W. Taylor reported favourably on such a plan.[6] In June 1866 Taylor's report to Congress on Canadian-American trade stressed the desirability of American support to Canadian development, especially in railroad building, as the entering wedge for possible annexation.[7] On June 27, 1866 E. H. Derby of Boston, in a detailed report to the Department of State, urged political union, but said, "If a perfect union cannot be effected, the plan of a *Zollverein,* presented by our Secretary of the Treasury in his late able message, is a near approach to it, and offers to each country many advantages." [8] American expansionists and annexationists thought that a favourable trade arrangement for Canada might be traded for British territory west of 90° west longitude.[9] In Canada commercial union had been favoured by Isaac Buchanan in 1864, and a favourable motion was introduced in Parliament by the Liberal, L. S. Huntington, in 1870.[10] Not much support was gained for the proposal in Canada, and the British government, while it did not directly place itself in opposition to a customs union, warned that any arrangements affecting manufactures must be on a most-favoured-nation basis and must not discriminate against British industry.[11]

The Washington Treaty of 1871, so unsatisfactory from Can-

[5] Lester Burrell Shippee, *Canadian-American Relations, 1849–1874* (New Haven: Yale University Press, 1939), pp. 313–317.

[6] *Senate Exec. Docs.,* No. 80, 62d Cong., 1st sess., vol. 13, pp. 670 and 699–700.

[7] *Senate Exec. Docs.,* No. 30, 39th Cong., 2d sess., p. 21.

[8] *Senate Exec. Docs.,* No. 80, 62d Cong., 1st sess., vol. 14, p. 995, and *Annual Report of the Secretary of the Treasury,* 1866, p. 28.

[9] *Senate Exec. Docs.,* No. 80, 62d Cong., 1st sess., vol. 14, pp. 1170–1171.

[10] Buchanan, *Industry of Canada,* pp. 19–20 and *Debates,* 1870, vol. I, c. 449.

[11] Shippee, *Canadian-American Relations,* p. 312.

ada's point of view, and the abortive efforts of George Brown to obtain renewal of reciprocity in 1874 concluded this phase of the struggle for better trade relations. Macdonald went to Washington in 1871 as one of the British commissioners to settle all the issues which had been troubling British-American relations since the end of the Civil War. These included, in order of importance from the Canadian point of view: trade relations,—specifically the renewal of reciprocity—the fisheries question, and reciprocal rights of navigation on the St. Lawrence and other waterways of the United States and Canada.[12] The Washington Treaty provided for free fish and a monetary award to be decided by impartial arbitration in return for fishing privileges for Americans along the Canadian coast. The agreement became effective July 1, 1873, and was terminated by the United States in July 1885. The right of transit for Canadian goods in bond through the United States was also secured to Canada for twelve years as a result of the treaty. Macdonald's failure to obtain trade advantages in return for the fishing rights brought down on him much criticism in Canada, but he seems to have laboured strenuously for the Canadian cause and evidently anticipated that the sacrifice by Canada of the fisheries' privileges without reciprocity would be rewarded by a British guarantee for a Canadian railway loan.[13]

In 1874 George Brown went to Washington as a special emissary of the Mackenzie government to attempt to secure a renewal of the Elgin-Marcy Reciprocity Treaty in so far as it related to

[12] From the American and probably also the British point of view, the claims arising out of the depredations of the Confederate commerce raider *Alabama,* which had been built in a British port, the fisheries question, and the San Juan boundary were of greater importance than the reciprocity question. This difference in viewpoint condemned the best efforts of Macdonald to failure, and the Canadians found the results of the negotiations highly unsatisfactory. The Fenian raid damages of Canada, which might have been held as a counter-claim to the *Alabama* claims were not considered. The island of San Juan on the Pacific coast went to the United States, and she collected over $15,000,000 in damages on account of the *Alabama* claims. See George M. Wrong, *The Canadians, the Story of a People* (New York: Macmillan, 1938), p. 371.

[13] Shippee, *Canadian-American Relations,* p. 372.

natural products and the fisheries. The Liberals at this time were willing to add to the free list of the Elgin-Marcy treaty salt, manufactures of wood, iron and steel, many agricultural implements, and miscellaneous manufactured articles.[14] Little debate took place in Parliament as Canadians remained justly skeptical of the success of these proposals. British manufacturers and even the Canadian Board of Trade opposed them.[15] The treaty (Brown-Thornton-Fish Convention) died in the United States Senate, which was preoccupied with monetary and revenue questions at the time.

While pursuing the will-o'-the-wisp of reciprocity Canadian politicians had not been neglecting the more realistic phases of tariff policy. Among the powers bestowed on the federal government by the British North America Act was the unrestricted and exclusive control over the customs.[16] The leaders of the union movement in what had been the province of Canada regarded the control of the customs tariff, which had produced over 60 per cent of the total revenues of the provinces, as the greatest force for welding the provinces into a united nation. Furthermore, the Dominion had assumed responsibility for the developmental (railway, canal, and municipal) debts of the provinces to the extent of over $88,000,000 at Confederation.[17] Revenue was, therefore, the prime objective of the first Dominion tariffs, and as capital im-

[14] Edward Porritt, *Sixty Years of Protection in Canada,* 1846–1907 (London: Macmillan, 1908), p. 173. In addition, Brown would have gained entry to the coastwise trade of the United States for Canadian ships, removal of discriminatory canal tolls, reciprocal admission of patent rights, and certain minor provisions regarding navigation on Lake Michigan, improved navigation on the St. Clair river at joint expense, and propagation and protection of fish on the Lakes See *Sessional Paper,* No. 51, vol. 8, 1875, p. 3, Alexander Mackenzie, March 9, 1874.

[15] John Charlton, *Speeches and Addresses* (Toronto: Morang and Co., 1905), p. 121.

[16] The British-North America Act provided that provincial duties should remain in force until altered by the Parliament of Canada. (Article 122) 31 Vict., c. 17 (1867) repealed the provincial acts. (Hereafter all citations of statutes refer to those of the Dominion unless otherwise noted.)

[17] *Report on Dominion-Provincial Relations,* I, 42.

ports sustained a growing import trade customs revenues rose from $9,000,000 in 1867 to $14,000,000 in 1874. Protection was ostensibly a waning cause in the first tariffs of the Dominion.

In his speech introducing the provincial budget of 1866, which largely assimilated the Canadian tariff to those of the seaboard colonies, Alexander Galt said:

> The policy of this country has been to make every article of natural production imported into the province free and for revenue purposes to impose duties on all those manufactured articles which it was thought were able to bear the burden, affording at the same time an incidental amount of protection to our manufacturers. Now we propose to decrease the duties on the largest class of manufactured goods entering the country, and to take them off altogether from those articles which, to a great extent, enter into the manufacture of other articles in this country.[18]

Galt expressed the hope that eventually all duties on manufactures might be removed. His change of heart since 1859 was due to the conviction that free trade was to be the future policy of Europe as it was of England and the desire to win the Maritimes to enthusiastic support of Confederation. Manufacturers, who attempted to organize for a return to higher duties, had no success.[19]

In 1867 the first tariff of the Dominion Parliament (31 Vict., c. 7) continued without much debate the basic rates of the provincial tariff of 1866. Duties of 15 per cent ad valorem remained on the general n.o.p. list. The export duty on timber and certain timber products from Quebec and Ontario was repealed. The duty on flour was lowered from 50 cents to 25 cents a barrel. Provision was made for placing goods from British North American

[18] Budget Speech, 1866, quoted in W. A. Mackintosh, "Economic Background of Dominion-Provincial Relations," App. 3 to *Report on Dominion-Provincial Relations*, p. 17.

[19] S. D. Clark, *The Canadian Manufacturers' Association* (Toronto: University of Toronto Press, 1939), p. 3.

colonies not yet in the Dominion on the free list by order-in-council. As for tariff administration, Canada's method of fixing value for duty at the fair market price in the country of export was continued. To establish classifications for duty purposes, the Minister of Customs was empowered to set standards for levying duties on sugar and other commodities that required scientific grading (31 Vict., c. 6).

The tariff underwent no substantial changes during the Macdonald coalition administration while Galt, Rose, and Hincks in turn were ministers of finance. The amendments of 1868 (31 Vict., c. 44) were important, however, as this was the first year of real parliamentary debate on the tariff question in the new Dominion. At this time the Dominion adopted the provincial practice of allowing drawbacks on exports of manufactured products equal to duties paid on imported materials used in their production. The export duty on oak, pine, spruce timber, shingles, and stove bolts, repealed in 1867 with respect to Ontario and Quebec, was reimposed on October 1, 1868. Duties levied in 1866 on goods entering free ports in Canada were repealed. Taxes on flour, meal, grain, breadstuffs, and salt were removed to help reconcile the Maritimes to Confederation. Coal was also placed on the free list. Horses and cattle were taken off the general 15 per cent list and given specific duties of $15.00 and $10.00 per head. Many iron products including bars, sheets, plates, rods, hoop, and wire were taken off the free list, where they had been placed in the great swing in the direction of free trade in 1866, and given nominal revenue duties of 5 per cent. Locomotive engines, together with railway construction equipment, were however added to the free list. Commodities of general domestic use bore moderate specific rates, butter and cheese entering at 4 cents and 3 cents per pound respectively. On sugar and molasses the consumer received less favorable treatment with the imposition of compound duties amounting, in years of low prices, to over 40 per cent on an ad valorem basis. The reliable revenue producers, narcotics and intoxicants, as usual bore substantial compound

grains were used in liquor production. Molasses could be manufactured into spirits in bond without payment of duties. Some additions were made to the list of goods that could enter freely from the British North American colonies, and the door was again left open to joint negotiations if the United States were agreeable to reciprocal tariff reductions. This tariff also contains an instance of imperial preference, for salt, which was made dutiable at 5 cents per bushel, was allowed free entry not only when it was used for the fisheries but also when it was imported from the United Kingdom or the Empire for any purpose. This provision was reenacted in subsequent tariffs.

Popular disapproval of the tariff of 1870 was widespread, and in 1871 the government placated consumers and exporters by removing the 5 per cent increase of 1870 (34 Vict., c. 10). Clearly no "National Policy" was contemplated in 1871. Some encouragement to domestic manufacturing was afforded, however, when the Governor-in-council was empowered to place machines used by Canadian manufacturers on the free list if satisfactory evidence was presented that similar machinery was not manufactured in Canada. Materials for use in Canadian manufacturing enterprises, whether natural products or partially manufactured goods, could also be placed on the free list by order-in-council. The weakening control of the coalition government was evident in the outcome of the budget debate of 1871. Macdonald was at the Washington conference, and the government, although willing to reduce duties on consumer's goods in response to popular demand, did not wish to remove the duties on coal and flour during the negotiations for fear of weakening his bargaining position. But when Luther M. Holton, an opposition member, moved that duties on coal, coke, flour, and wheat be removed, the motion carried despite government opposition.[22] In July 1872 the unpopular tea and coffee duties amounting to 15 per cent—plus 3½ cents for black and 7 cents for green tea, and 3 cents and 4 cents per pound for green and roasted coffee—were repealed (35 Vict., c. 11). The United States had recently removed her duties on

[22] *Debates,* 1871, vol. II, cc. 585 and 591–598.

these products, and past experience had shown the futility of Canadian duties on these articles when they entered the United States freely and from there could be smuggled into Canada. At the same time, however, provision was made for a retaliatory duty on tea or coffee from the United States if that country levied a discriminatory duty on tea or coffee from Canada (35 Vict., c. 12).

The coalition's position continued to deteriorate. In 1872 the Liberals charged Macdonald with failure to uphold Canada's interests at Washington. Comment from the Maritimes over the sacrifice of their fishing monopoly was bitter, for free entry for fish into the American market was not considered an adequate *quid pro quo* even with the money settlement thrown in, especially when the Americans put a heavy duty upon the containers in which Canadian fish were packed. The people of Ontario and Quebec regarded Macdonald's railway promises, particularly to British Columbia, as too lavish, and impossible of fulfillment.[23] Though the government was successful in the election of 1872 by a narrow margin, in the next session a want-of-confidence motion over alleged malfeasance in accepting campaign contributions from Sir Hugh Allan, who was interested in contracts for the proposed Pacific railway, resulted in Macdonald's defeat and resignation. The Conservatives were decisively beaten in an appeal to the country in the election of 1873.

On November 5, 1873, the Macdonald cabinet resigned, and Alexander Mackenzie, the Liberal leader, was asked to form a government. During the seven years of federalism from 1867 to 1873 a form of customs tariff, with protection as a secondary con-

[23] In 1866 Vancouver Island and British Columbia were joined in a legislative union. British Columbia had had a 10 per cent ad valorem tariff since 1858 with specific duties on foodstuffs and a large free list established by proclamation by Sir James Douglas (P.A.C., Series G, vol. 353, p. 220, Douglas to Hudson's Bay Co., March 18, 1859). Vancouver remained on a free trade basis, and customs squabbles with British Columbia over the operation of Victoria as a free port were frequent. Both the island and the mainland had trouble making ends meet after the decline of gold mining after 1864 (Creighton, "British North America at Confederation," p. 34). British Columbia was brought into the Dominion in 1871 with the promise that a Pacific railway would be completed within ten years.

sideration, had been utilized as the principal fiscal instrument of government. The 15 per cent rate on most dutiable imports had sustained a rapidly increasing flow of revenue during the prosperous sixties and early seventies. Groups in central Canada had begun to agitate, as in the 1840's and 1850's, for a protective tariff that would encourage domestic manufacturing and be a counterpoise and a bargaining weapon for use against the high tariff of the United States. But until the depression of the late 1870's seriously curtailed the country's exports, little progress was made by the protectionists as few Canadian industries were dependent upon protection for survival and the eastern provinces were strongly opposed to sharing its burdens.

Mackenzie's ministry contained proponents of the free trade philosophy which had received widest acceptance in England during the previous decade. Among them was Sir Richard Cartwright, the new Finance Minister. But Sir Richard did not assume the finance portfolio at a time suitable for tariff reductions in a country dependent on the customs for two-thirds of its federal revenues. For twenty-three years, beginning in 1874, the price level at home and abroad was carried downward; foreign trade shrank; and capital imports declined throughout the Liberals' term of office.

The revenue exigencies of 1874 were such that a 2½ per cent increase in the general tariff list was necessary, making the n.o.p. rate 17½ per cent. The 10 per cent list was lengthened by adding some items from the free list and some which had been dutiable at higher rates. The unpopular duties on tea and coffee, which had been removed in 1872, were reimposed at 3 cents and 4 cents per pound on black and green tea and two cents and 3 cents for green and roasted coffee respectively. This step elicited substantial opposition throughout the country. Iron and partially manufactured steel were given a 5 per cent revenue duty. These and other changes contained in Cartwright's first budget raised the average rate of duty to about 20.5 per cent, that is to say, almost 1 per cent higher than it had been under the coalition ministry.[24]

[24] MacLean, *Tariff History,* p. 16.

Duties on cigars, whiskey, wine, cordials, and tobacco were raised one-fifth to one-third above the rates of 1870. No attempt was made to provide particular favours for domestic manufacturers. Non-competing factory machinery imported from the United States paid the same 10 per cent rate as cotton thread, warp, felt, and other textile products similar to those produced in Canada (37 Vict., c. 6). In this respect the Mackenzie-Cartwright administration remained true to its economic principles throughout its five years in office.

In 1876 there were charges that even a revenue tariff was a monopoly breeder in the small domestic markets of central Canada. Attack was centred on the 15 cents per gallon duty on crude petroleum which the Conservatives had imposed. The petroleum industry had enjoyed something of a boom in Western Ontario during the early seventies under this duty. "The result of this protection was that rings were formed among the oil producers and refiners of Western Ontario to increase the cost of petroleum to the consumer. . . . Instead of oil selling at 15 cents to 20 cents [per gallon] it costs 28 cents wholesale."[25] Though Cartwright said he was not willing "to wipe out of existence a Canadian industry which had grown up under the protection of the law as enacted by the hon. gentlemen opposite,"[26] in 1877 the duty on crude petroleum was reduced from 15 cents to 6 cents per gallon (40 Vict., c. 11). In the same year an act to clarify administrative problems was also passed (40 Vict., c. 10).[27]

Protection versus free trade was the principal subject of debate in Parliament and the country during the closing years of the Mackenzie administration. Since this debate furnished the back-

[25] *Debates,* 1876, p. 661.

[26] *Debates,* 1877, p. 142.

[27] The Governor-in-council was empowered to select places of entry for goods coming into Canada and in doubtful cases to fix the duty. The importer, in cases of doubtful appraisal or classification, had the right of appeal to the Minister of Customs and then within a designated period to the courts. Provision was made for exempting from import duties goods admitted for warehousing and reëxport. Cattle and swine could now be slaughtered and grain milled and sugar refined in bond.

ground of a supremely important national decision, namely, the adoption of an avowedly protective tariff, discussion of it will be postponed to the next chapter.

A virtue of the tariff policy pursued by Sir Richard Cartwright was its stability, the 1874 rates remaining substantially unaltered throughout the four-year period 1874–1878. The economic philosophy was that of laissez faire in commercial policy though fiscal necessities made its practical realization impossible. The policy of taxing luxury products by a fiscal tariff during depression was sound, in the absence of remunerative income and property taxes, but the taxable base proved to be a narrowing one, and recurrent budget deficits occurred after 1874. Canada did not possess a distinctly well-to-do class likely to consume substantial quantities of luxuries dutiable at 25 per cent and expensive liquors dutiable at $1.00 a gallon. The large class of necessary consumption goods taxable at moderate rates alone proved a reliable source of revenue.

What of economic conditions in the Dominion under its first, and last, real "revenue tariff"? The first important factor to be considered is the effect of the abrogation of the Reciprocity Treaty. Some domestic commodities fell in price in the leading Canadian markets when they became dutiable at the border, but wheat, flour, and timber were important exceptions. Wheat and flour were rising in price before the abrogation, and their upward progress continued; flour which was $4.25 per barrel in January 1865 was $6.75 in December 1867.[28] As for timber, a report to the United States Congress in June 1866 stated that, "Since the abrogation of the reciprocity treaty, American purchasers are paying higher rates for Canadian timber, and in larger quantities, than in 1865, notwithstanding the necessity of paying a duty of 20 per cent on the frontier of the United States." [29] Exports to the United States of the principal lumber products increased from about $4,600,000 in 1866 to over $5,000,000 in 1867. The recov-

[28] *Senate Exec. Docs.,* No. 80, 62d Cong., 1st sess., vol. 14, p. 1175 (Brega Report).

[29] *Senate Exec. Docs.,* No. 80, 62d Cong., 1st sess., vol. 13, p. 886 (Taylor Report).

ery in the foreign exchange value of the American dollar after 1866, together with the high price level in the United States during the reconstruction period, undoubtedly gave a stimulus to Canadian exports. Prices in Boston and New York in 1868 were on the whole much higher for raw materials and food than those in British North America, even allowing for transportation costs. In September 1868, potatoes were only 25 cents a bushel in Prince Edward Island while they were $1.20 a bushel in Boston and New York. Coarse grains were twice as high in the American cities, and herrings $3.00 a hundredweight in Charlottetown and $8.00 in New York. Long lustre wool was 30 cents per pound in Canada at the same time it was bringing 70 cents on the Boston wool market.[30] The principal exports of the Canadian provinces to the United States after Confederation, as before, were animals, furs, coal, lumber and its products, wool, wheat, and wheat flour though the latter declined substantially after the repeal of reciprocity.[31]

The attraction of the United States market despite the abrogation of the reciprocity treaty is evident from an examination of

[30] *Senate Exec. Docs.*, No. 80, 62d Cong., 1st sess, vol. 14, p. 1242 (Derby Report).

[31] An analysis of total exports by commodity groups for the seven years 1869 to 1875 shows woods and paper in first place with 38 7 per cent of the total; animal products second with 24.1 per cent; other agricultural products, 12.3 per cent; non-metallic minerals 2.9 per cent; and non-ferrous metals, iron and steel, fibres and textiles combined about 4 per cent (K. N. Taylor and H. Michell, *Statistical Contributions to Canadian Economic History* (2 vols., Toronto: Macmillan, 1931), II, 5). See also *Senate Exec. Docs.*, No. 80, 62d Cong., 1st sess., vol. 14, pp. 1351–1352, for statistics on certain United States imports from British North America:

| Article | 1860 | 1865<br>In $1000 | 1870 |
|---|---|---|---|
| Wheat | 1,785 | 1,695 | 863 |
| Wheat flour | 3,008 | 2,970 | 352 |
| Animals | 1,659 | 5,503 | 6,130 |
| Furs | 278 | 443 | 623 |
| Coal | 497 | 1,210 | 613 |
| Timber and lumber | 3,416 | 4,516 | 8,673 |
| Wool | 341 | 1,527 | 820 |
| Total U.S. imports from Canada | 23,063 | 38,821 | 32,090 |

the trade balances. Although the Canadian balance of trade with all countries was passive from Confederation until 1880,[32] 1874 was the first year in a decade that the United States failed to import from Canada more than she exported to the Dominion. In 1870 exports from the United States to all the British North American colonies amounted to more than $25,000,000, nearly $22,000,000 of which came to Canada.[33] About $9,000,000 of these Canadian imports were dutiable and $13,000,000 were free. The most important imports from the United States were sugar and molasses, general hardware, coal and coke, flour, grains of all kinds except corn, Indian corn, hides, woolens, and machinery. Of the last about half a million dollars' worth was imported in 1870.[34] Canadian exports to Great Britain were doubled between 1868 and 1874 as compared with a 30 per cent increase in exports to the United States.[35] With the mother country, however, a substantial excess of imports over exports was recorded during this period.

As for the composition of Canadian imports between 1871 and 1875, only 4.6 per cent of imports were raw materials, but as manufacturing activity increased in the Dominion the proportion of raw materials to total imports increased to 5.9 per cent in 1876–1880, and 10.2 per cent in 1881–1885.[36] From 1869 to 1875, 27 per cent of imports were of agricultural origin, 26.5 per cent were textile products, and 12.8 per cent were iron and steel.[37]

No important change in the barter terms of trade occurred from 1869 to 1873, but after that year the terms began to turn in

[32] *Canada Year Book* (Ottawa, 1939), p. 503. Percentage Ratio of Total Exports to Imports:

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1868 | 78.55 | 1871 | 80.13 | 1874 | 70.92 | 1877 | 79.83 |
| 1869 | 89.07 | 1872 | 74.92 | 1875 | 64.45 | 1878 | 87.56 |
| 1870 | 98.01 | 1873 | 69.03 | 1876 | 86.18 | 1879 | 89.94 |
| | | | | | | 1880 | 123.23 |

[33] *Senate Exec. Docs.*, No. 80, 62d Cong., 1st sess., vol. 14, p. 1291 (Larned Report).

[34] *Senate Exec. Docs.*, No. 80, 62d Cong., 1st sess., vol. 14, p. 1296.

[35] *Report on Dominion-Provincial Relations*, I, 47.

[36] Taylor and Michell, *Statistical Contributions*, II, 6.

[37] Taylor and Michell, *Statistical Contributions*, II, 4.

Canada's favour.[38] In quantitative terms, however, American producers gained considerably on the Canadian market at the expense of both domestic and British competition during the 1874–1878 interval. Importations of British goods were reduced from $68,000,000 in 1873 to $37,000,000 in 1878. During the same period, imports from the United States increased from $45,-000,000 to $48,000,000. On the other hand, exports to Great Britain from Canada increased from $31,000,000 in 1873 to $36,-000,000 in 1878, while Canadian exports to the Republic declined from $37,000,000 to $24,000,000 in the same period.[39] In 1878 the Dominion imported $18,000,000 worth of flour, grain, and animal products from the United States.

One may conclude, therefore, that up to 1874 the abrogation of reciprocity was counterbalanced by other factors favourable to Canadian exporters to the United States. Thereafter Canada lost her favourable position as currency stabilization in the United States, higher tariffs, and the rapidly increasing efficiency of American industry reduced exports and increased imports from the Republic.

The influence of the tariff on industrial development in Canada during the first decade of Confederation was not striking. As Professor Mackintosh says, "Examination of the Census of 1871 reveals that Canada had made some progress along the path of industrialization. Few of her important industries were, however, dependent on the very slight tariff protection of those days." [40] In his study for the Sirois Commission, he estimated that 12 per cent (measured by number of employees) of Canadian industries in 1871 were of the naturally sheltered type, for example, small shops and service establishments; 43 per cent were processors of raw materials, such as saw and flour mills, whose locations near the source of supply were determined by economic necessity; and 45 per cent were subject to external competition though favoured

[38] Taylor and Michell, *Statistical Contributions,* II, 6–7.

[39] *Canada Year Book* (Ottawa, 1940), pp. 530–531.

[40] W. A. Mackintosh, "Economic Background of Dominion-Provincial Relations," App. 3 to *Report on Dominion-Provincial Relations,* p. 17.

by transportation costs and cheap raw materials from England (for woolens and some iron and steel products) as well as by the tariff.

At Confederation, Canada's industrial community was decentralized, and production units were small. The products of local extractive industries, such as agriculture and lumbering, furnished the raw materials for flour mills, tanneries, local cheese factories, and some small manufacturing establishments not far removed from the domestic stage of industrial development, serving local markets for the most part.[41] The high transportation costs except when water transport was available, the peculiarity of local demand, and the necessity of effecting repairs on the spot contributed to the development of local village or town industry. Boot and shoe establishments, tailoring and clothing shops, sugar refineries, cabinet and furniture shops, and farm implement factories were stimulated by the natural protection afforded by inadequate transportation and communication facilities. Ontario woolen mills were started during the cotton famine of the Civil War.

The degree of self-sufficiency attained in manufacturing industries in the census year of 1871 is shown in Table 7. Among the industries awarded special tariff protection were agricultural machinery, boots and shoes, brewery and distillery products, and tobacco. In these, domestic producers were supplying more than 90 per cent of the goods consumed in their respective fields. In such lines as cheese products, clothing, meats, flour, and meal, however, little protection was afforded by the low revenue tariffs, and still almost all of the goods consumed were produced by domestic sources. On the other hand, sugar refining had received generous protection during the late fifties and early sixties, yet less than 60 per cent of the sugar consumed came from Canadian refineries. Canadian manufacturers were indeed placed at some disadvantage because of credit conditions. While investment capital was scarce in Canada and credits expensive for Canadian manufacturers, long-term British credits were available to Cana-

[41] Skelton, "Economic History," pp. 104–108.

dian dealers in British goods. Consequently manufacturing, as compared with commercial, development was retarded until more substantial tariffs were imposed.

TABLE 7

PRODUCTION AND CONSUMPTION IN CANADA, 1871

| Industries | Value of Production in $1000 | Production as Percentage of Consumption and Exports | Duty and Date of Application | |
|---|---|---|---|---|
| Agricultural machinery | 2,685 | 95 | 15% | 1866 |
| Boots and shoes | 16,134 | 99 | 15% | 1866 |
| Brewery products | 2,141 | 95 | 15% | 1866 |
| Furniture | 3,581 | 97 | 15% | 1866 |
| Carriages | 4,849 | 99 | 15% | 1866 |
| Cheese | 1,602 | 99 | 3¢ lb. | 1868 |
| Cottons, denims | 782 | 24 | 15% | 1866 |
| Distillery products | 4,093 | 97 | 80¢ gal. (whiskey) | 1866 |
| Flour and meal | 39,136 | 94 | 25¢ cwt. | 1866 |
| Glass | 293 | 65 | 15% | 1866 |
| Foundry products | 893 | 79 | free | |
| Machine manufactures | 7,326 | 93 | free by order-in-council | |
| Meats | 3,800 | 88 | 1¢ lb. | 1866 |
| Oil (coal, kerosene) | 3,095 | 99 | 15% | 1866 |
| Paper | 1,072 | 82 | 15% | 1866 |
| Rope, twine | 770 | 95 | 15% | 1866 |
| Saddlery, harness | 2,465 | 95 | 15% | 1866 |
| Soap, candles | 1,324 | 95 | 15% | 1866 |
| Stone and marble | 1,088 | 97 | 15% | 1866 |
| Sugar (over 90 D.S.) | 4,133 | 60 | $3 cwt. | 1868 |
| Tanneries (leather) | 9,185 | 91 | 15% | 1866 |
| Tobacco | 2,435 | 98 | 12½% and 2¢ lb. | 1870 |
| Woolens | 5,508 | 85 | 15% | 1866 |
| Earthenware | 331 | 39 | 15% | 1866 |

In some of the extractive industries the need for adjustment after the abrogation of reciprocity gradually became apparent especially when the depression of the 1870's set in. The coal operators of Nova Scotia and the slate producers of Quebec complained of American competition in Canada, and of the inacces-

sibility of the United States market. Canadian lumber production was hard hit by the depression and in 1875 was 50 per cent lower than it had been in 1872. Canadian lumber was forced out of the New England lumber market by the domestic competition of Michigan and Wisconsin. Higher duties against Canadian lumber in the United States and improved transportation there reduced Canada's locational advantage for supplying the eastern states, an advantage which the provinces had enjoyed under reciprocity. The lumber interests in Canada were particularly strong advocates of free trade and reciprocity.

In strictly manufacturing industries farm machinery was among the most prosperous, owing to the growth of the internal market. The products of the industry were dutiable at the general rate of 15 per cent up to 1874 and 17½ per cent from then to 1879. Although by 1879 some consolidation had occurred, many small plants still persisted.[42] Progress or decay in the particular agricultural community near the plants determined whether or not substantial growth was attained, and local prosperity decided the vulnerability of the companies to general depression. In many instances the length of credit which the manufacturers had extended to the farmers was a source of difficulty during the fall in prices after 1874. The coming of the railway widened the market of production centres such as Brantford and Woodstock in western Ontario, Toronto in the central portion of the province, and Smith's Falls in the east. Access to transportation and communication facilities, proximity to the iron and steel industry, and adequate supplies of capital gave advantages to the larger centres though aggressive management and cheap power in some cases enabled the smaller centres to hold their own. A very important factor in the centralization of production was technical progress and the pressure of obsolesence. With the close of the pioneer era of farming, the complex product of the factory replaced the cruder implements produced in the forge and the blacksmith shop.

[42] The number of establishments decreased by 18 between 1871 and 1881, leaving 234 in the latter year. Value of production (gross) increased 64 per cent, and value of production (net) 42.8 per cent over the same period.

In 1867 the mechanical harvesting of grain was an innovation. In that year the Harris firm, later a member of the Massey-Harris combination, began constructing hand-rake reapers. In 1869 Massey's introduced the first automatic dump rake to be manufactured in North America, and in 1876 the Canadian patent for the self-binder was taken out.[43]

In testimony before the Select Committee on Causes of the Depression in 1876, the president of the Massey concern said, "The existing status of the tariff is satisfactory to us, and is sufficient protection; perhaps even a little less would also be. A still further advance in the tariff would certainly prove adverse to our interests." [44] Mr. Frost of the Frost and Wood firm of Smith's Falls testified that Canadian manufacturers did not need protection as labour and material were cheaper in Canada and prices substantially lower. He said: "By competition we succeeded in driving them [the American producers] all out of the country." [45] After showing that Canadian implements were priced as much as 40 per cent below American (the machines may not have been of comparable quality), he said, "I consider 15 per cent . . . practically a prohibitive tariff as far as regards selling in Canada any agricultural implements made in the United States. . . . We get our raw material a great deal cheaper than the Americans do." [46] The inflation which accompanied the Civil War reacted disadvantageously upon the export position of the American industry, and labour costs were substantially higher than in Canada. Canadian manufacturers procured their lumber and timber, for example, from local sources at a price estimated by one manufacturer at one-half that prevailing in the United States. Pig iron, bar iron, and steel, for the most part, were purchased from British sources. Malleable castings and knives were imported from the United States as was coal, which competed with water as a source

[43] Massey-Harris Co., Ltd., *Massey-Harris, an Historical Sketch,* 1846–1926, (Toronto, 1926), pp. 9–12.

[44] *Journals of House of Commons,* 1876, App. 3, Report of the Select Committee on the Causes of the Present Depression, p. 128.

[45] *Journals of House of Commons,* 1876, App. 3, Report on Depression, p. 121.

[46] *Journals of House of Commons,* 1876, App. 3, Report on Depression, p. 119.

of power. During 1872–73 the cyclical price decline in the United States enabled the Americans to undercut the British temporarily in supplying pig iron. In 1876, however, semi-manufactured iron from the United Kingdom was procurable at $20.00 per ton in Montreal, whereas, at the same time, the American price was $24.00 per ton. Furthermore, Canada profited without cost from the technical advances made by members of the industry in the United States, as American inventors did not afford adequate protection to their patents in Canada. Canadian manufacturers simply crossed the border, purchased an American machine, and brought it back to be used as a model for Canadian manufacture.

As for the textile industry, Canadian firms had expanded during the American Civil War and in some instances found themselves hard pressed at its conclusion. In 1871 the census records nine cotton mills in Canada, of which six were in Ontario, one in Quebec, and two in the Maritimes. Net value of production amounted to $319,800 per year. Manufacturers of wool cloth were much more important with 270 mills largely concentrated in Ontario and around Montreal. Net value of production of woolens was $2,290,000. The Canadian woolen industry, started during the raw cotton famine induced by the Civil War, grew because of the cheap domestic raw wool which resulted from the high duties against Canadian raw wool imposed by the United States after the abrogation of reciprocity.[47] In the case of cotton, raw materials were apparently priced the same in New England and Montreal. Machinery was higher in Canada, for it was dutiable at 10 per cent after 1874. Labour, on the other hand, was slightly cheaper in the Dominion. American manufacturers received some benefits from greater specialization, and some Canadians argued that duties higher than the prevailing 17½ per cent would enable profitable specialization to be carried on in Canada. Almost all effective competition appeared to come from the United States rather than England. Woolen goods manufacturers com-

[47] *Journals of House of Commons,* 1876, App. 3, Report on Depression, p. 119 and *passim* for evidence of textile manufacturers; also *Report of Royal Commission on Textile Industry,* pp. 32–33 and 42.

plained of unfair competition from the poorer grades of English cloth, but in general agreed that the Canadian duty was adequate. The knit goods industry favoured free yarn rather than higher duties on clothing. Removal of the 10 per cent duty imposed on machinery in 1874 (it had previously been free by order-in-council) was desired by all branches of the industry.

Flour millers suffered from the depression of the 1870's as much as any group because of their over-expanded facilities. Available capacity in 1876 was said to be four times the domestic demand. Production for the British market did not pay, and the United States duty prevented profitable transactions in that market. The decline in sales to the United States became serious in 1869–70, long before the depression set in. Clearly, lowering of tariffs abroad and a recovery of world prices were the cure for this industry.

Among the many secondary industries that may be mentioned are the footwear manufacturers, the hardware and stove industry, and sugar refiners. During the depression the boot and shoe industry experienced the largest number of failures of all the manufacturing industries, despite the protection of the general tariff of 15 per cent (17½ per cent after 1874). It was an industry carried on partly in factories and partly in small handicraft shops engaged in custom work. It had received a real stimulus from high prices in the United States during and after the Civil War, but feverish growth stopped when high American duties shut Canadian goods out, and American techniques and specialization began to tell. The products of Canadian tanneries were not sufficiently diversified to meet the demand for leather, and some parts had to be imported from the United States over a tariff of 10 per cent on sole and 17½ per cent on upper leather. Stove and furnace manufacturers were handicapped by American competition and labour troubles, and also because their home market was too small to make specialization feasible. Dumping of obsolete goods from the United States menaced the Canadian industry and made any price level very hard to maintain. Eight to 10 per cent reduction in prices occurred during the depression.

When world-wide deflation and depression first set in in 1873, the pioneer type of industrialism of the Dominion exhibited marked powers of resistance to the impact from the outside. Reduced transportation costs from Britain, thanks to the steamship, and improved methods of production brought down the prices of commodities Canada had to buy while export prices of Canadian materials were on the whole better maintained, especially in the United States. "It was not until after 1875 that the full severity of depression was felt in Canada and then it was intensified by crop failures." [48] The majority of producers had not in 1875 begun to look to a protective tariff as a solution to falling export prices and depressed internal trade. Reciprocity with the United States still possessed a wider appeal. The coming of the railroad, however, had destroyed the element of monopoly which many manufacturing industries enjoyed in their local communities. Technological advance, largely borrowed from the United States, while certainly benefiting Canadian industry as a whole, did hasten obsolescence among many smaller units. It was from these small industrial units that protection first received support. The Mackenzie government soon found itself caught between a demand on the one hand for protection of Canadian industry against dumping from the distressed markets of the United States, and on the other a less articulate demand for a reduction of the revenue duties on the necessities of life. The philosophy of Cartwright and Mackenzie could not admit the soundness of tariff protection, and a paucity of alternative means of taxation ruled out compliance with the second demand for reduction of revenue duties.

The direction followed by the subsequent Canadian commercial policy was not clearly indicated in the dozen years following Confederation. The need for reconciling the Maritime provinces to union, and the influence of their representatives in the cabinets of Macdonald and Mackenzie, discouraged advocates of tariffs for non-fiscal purposes. Fear of antagonizing the groups in the United States who were working for a renewal of reciprocity

[48] Mackintosh, "Economic Background of Dominion-Provincial Relations," p. 18.

helped keep protectionist arguments in the background. Perhaps too the example of England and the genuine belief in free trade principles held by Cartwright and his associates should not be under-emphasized. More important, however, as a factor in policy was the favourable position of the young Dominion during the reconstruction and post-bellum inflation in the United States. Canadian merchants and farmers, with access to the cheap manufactured goods of the English market, were for a time joined in their support of low tariffs by many manufacturers who were protected in Canada by the war-inflated costs of production in the United States. Stimulants to industry invoked by Macdonald's government took the form of remissions of duty on factory equipment and raw materials rather than protective duties. In the next chapter we shall examine the forces which supported a Canadian change in commercial policy in the next decade.

# CHAPTER VII

## NATIONAL POLICY

THE ADOPTION OF a "National Policy" of tariff protection as the major plank in the Conservative platform in the campaign of 1878 illustrates the advantages of opportunism in practical politics. While in office up to 1873 the Liberal-Conservative party of Macdonald, Tilley, and Hincks had been temperate in advocating protection because of its dependence on support from the Maritime provinces. After the defeat of this party in 1873, the Conservatives needed an issue dramatic enough to make people forget the Pacific scandals. The conjunction of depression and the Liberals' adherence to revenue tariff principles provided an opening for the Conservatives, but they moved cautiously until they were sure that the Liberals were going to remain in favour of a revenue tariff based on the trade doctrines of the mother country, notwithstanding economic depression and rising tariff walls in the United States. This became clear when the tariff was not raised in the middle 1870's despite pressure from within the party. In 1876 Mackenzie and Cartwright were willing to propose a general increase of 2½ per cent, a proposal which had protectionist implications, but they were held back by the Maritime Liberals.[1] Contemporary rumour in Ottawa reported that Macdonald would have attacked the increases and possibly come out for free trade had his opponents advocated higher tariffs.[2]

From 1874 to 1878, however, the free trade doctrines of classical economics, for the last time in Canadian politics, had eloquent expression from the spokesmen of a government. Protection was portrayed as a favour to class and special interests at the expense of the general welfare; it was held to accentuate the trend to-

[1] O. D. Skelton, *Life and Letters of Sir Wilfrid Laurier* (2 vols., New York: Century, 1922), I, 218.

[2] Porritt, *Sixty Years of Protection*, p. 287.

wards monopoly and to lower the real wages of labour. In the campaign of 1878 David Mills, a leading advocate of the Liberal cause, said of the two party platforms: "We are not simply travelling upon divergent roads; we are seeking to persuade you to take opposite directions."[3] Protection had, therefore, the virtue of a distinctive party slogan in the debate of the later 1870's. But not until the depression had made severe inroads did it win wide acceptance in the country as a whole.

Pamphlets espousing protection after the American model were, indeed, not foreign to Canadian propaganda long before 1878. The efforts of Buchanan and his followers have already been reviewed. The teachings of List, Carey, and Greeley were restated for Canada by John MacLean in a pamphlet published in 1867.[4] Manufacturing industries, MacLean said, were possible in a new country only under protection. England had used the device before she won industrial supremacy. The basic antagonism between protective and fiscal duties was glossed over. The productive powers set in motion by the tariff would, the writer avowed, dissipate the burden which, in any case, could be partially shifted onto the foreign exporter. Argument in a similar vein, reminiscent of Frederic List, came from the pen of J. Beaufort Hurlbert who employed the "infant industry" and "diversification" arguments in support of high tariffs for Canada in 1870.[5]

The demand for a bargaining weapon against the protective tariff of the United States did more to obtain popular support for protection than the "logic" of the pamphleteer. The failure to obtain reciprocity in trade in 1869 and 1874 led to the slogan "reciprocity in tariffs" which was used to win support for the ill-starred retaliatory duties on salt, coal, and breadstuffs in 1870, as well as for the National Policy in 1878.[6]

[3] David Mills, *Speeches on Public Affairs in Canada, 1878–90* (Bound Collection of Pamphlets in Harvard College Library), p. 1.

[4] John MacLean, *Protection and Free Trade* (Montreal: John Lovell, 1867).

[5] J. Beaufort Hurlbert, *Field and Factory Side by Side, or How to Establish and Develop Native Industries* (Montreal: John Lovell, 1870).

[6] In 1870 the Ottawa Board of Trade petitioned for a duty on "coal, salt, and petroleum and on all manufactures imported from the United States, and that a

The enthusiasm of the more important manufacturing interests for a general tariff was but slowly aroused, though some protection was sought against dumping from the United States and Britain. In 1874 a select committee of the House heard many leading industrialists condemn this practice. In summary the committee stated, "It appears that the competition from the United States, in those classes of manufacture which come under the influence of such competition, is seriously complained of on the ground that it is an unequal competition fostered by the different fiscal system of the two countries."[7] American producers, protected by their own tariff, sold in Canada—the argument ran—at prices below even prime costs, making of Canada a "slaughter market." The farm machinery industry complained that such dumping had embarrassed domestic producers in 1870. Furniture producers, boot and shoe manufacturers, the tool industries, and the stove makers aimed their complaints at American dumping. Woolen, cotton, and clothing manufacturers complained that cheap British goods of low quality offered ruinous competition in poor years.

Two years later an anti-protectionist committee, under the chairmanship of David Mills, investigating the causes of the depression, found no great demand for protection. Most witnesses appearing before this committee expressed opposition to higher tariffs, though this was not true of the smaller units in the tool, wire, and metal industries. The committee was led to conclude, perhaps more by predilection than by the evidence, that, ". . . a national policy founded upon the greatest freedom of trade which the public credit will permit is the one most advantageous to this country. . . ."[8] In March 1877 even the Toronto Board of

duty be imposed on all articles imported into Canada from the United States, the same as similar articles were charged there." The Montreal Board of Trade presented a counter petition, but other interested groups, particularly farmers, wanted protection on Canadian tobacco and other products.

[7] *Journals of House of Commons,* 1874, App. No. 3, p. 1. Under the American tariff clothing was dutiable at 36 per cent ad valorem plus 45 cents per pound; boots and shoes, 35 per cent; paper, 31½ per cent; glass, 35 per cent; flour, 20 per cent; and furniture, 35 per cent. These bore 17½ per cent under the Canadian tariff of 1874. Raw material and food duties were also much higher in the United States.

[8] *Journals of House of Commons,* 1876, App. 3, Report on Depression, p. xiv.

Trade was quoted in the House as on record against the protective tariff, believing it to be a step leading to unhealthy competition and financial distress.[9] By this time, however, manufacturers had organized to work for protection and as early as 1874 had drawn up a schedule of duties on articles which were or might be made in Canada. The movement took form as the Manufacturers' Association of Ontario which aimed "to secure by all legitimate means the aid of both public opinion and governmental policy in favour of the development of home industry, and the promotion of Canadian manufacturing enterprise. . . ."[10] By 1877 the Dominion Board of Trade unanimously adopted a motion in favour of protection. The agitation carried on by manufacturers undoubtedly made the task of the Conservatives easier.

When the Liberals decided against a 20 per cent general tariff in 1876, the Conservatives embarked on a campaign to "sell" protection to the manufacturers and the country. The opening skirmish in the political campaign got under way in Parliament when Cartwright moved that the House go into Committee of Supply. Workman of the opposition countered with the motion:

> This House deeply regrets that the Government has not proposed to Parliament a policy of increased protection to our various and important manufactures, the large amount of capital invested therein, and the present depressed condition of the country rendering such a policy necessary to restore them to a condition of prosperity.[11]

This motion was defeated, but most of the arguments for and against the protective principle were aired at the time. Sir John A. Macdonald, opposition chieftain, offered the tariff to both industry and agriculture as a cure-all. The Galt tariff of 1859 was endorsed as Macdonald declared, "[Galt] laid down for us the principle of a national policy, that we should consider our own

[9] *Debates*, 1877, p. 612 (Jones). In 1876, however, the Toronto Board had abandoned free trade in favour of protection to home industry. Clark, *Canadian Manufacturers' Association*, p. 6.

[10] Clark *Canadian Manufacturers' Association*, p. 5.

[11] *Debates*, 1876, p. 472.

interests only, and that in an adjustment of the tariff we should endeavour to foster all these various industries of which I have spoken." [12] The Conservatives in the House claimed that the tariff would make for lower, not higher, prices and by reserving the home market for the Canadian manufacturer would enable him to export more advantageously.[13] In the budget debate of 1877, Macdonald moved the regrets of the House that the government's policy increased the tax burden without compensatory advantage to industry.[14] Cartwright reaffirmed adherence to the revenue principle,[15] and another Liberal, Wood of Hamilton, declared that only the manufacturers really favoured protection,[16] and he challenged the Conservatives to bring down a motion for outright industrial protection in Canada. They took up his challenge before the electorate in 1878 and won a notable victory, especially for a party which five years before had been deeply mired in political scandal.

The journalistic supporters of the Liberal party, such as the *Toronto Globe* and the *Halifax Morning Chronicle,* tried to rally the farmers of Ontario and the anti-protectionists of the Maritimes. The *Globe* rightly argued that protection would not raise export prices. The *Globe* admitted that a few new industries would be fostered by the tariff but at the expense of unprotected groups.[17] In the Maritimes the Liberals found promises of new duties on refined sugar and coal most difficult to combat as these seemed to offer the industries of Nova Scotia entrée to central Canada. On the Conservative side the *Montreal Gazette* was able to quote from Adam Smith in support of tariff retaliation against the United States.[18] The "infant industry" argument was freely employed amid charges of monopoly-breeding and high food

[12] *Debates,* 1875, p. 492.
[13] *Debates,* 1876, p. 482 (Palmer). A resolution by mechanics and manufacturers of St. John's was read.
[14] *Debates,* 1877, p. 405.
[15] *Debates,* 1877, p. 141 (Budget Speech).
[16] *Debates,* 1877, p. 513.
[17] *Toronto Weekly Globe,* May 17, 1878.
[18] *Montreal Gazette,* August 26, 1878.

prices by Ontario and Maritimes consumer spokesmen. The *Halifax Morning Chronicle* estimated the cost of the National Policy at $3.70 per head per annum.

Anti-American sentiment was added to economic unrest to make protection a popular policy in 1878. After the campaign Hincks attributed the victory of protection very largely to the failure of the reciprocity negotiations in 1874,[19] and the Toronto *Mail*, a supporter of the Conservative party, admitted on September 13, 1878 that "There are probably not a thousand men in Canada who would call for protection if the United States would consent to free trade." The record of Canadian-American relations since 1865 indicated that abrogation of reciprocity still rankled. To the groups which had been the chief beneficiaries of that treaty Macdonald now offered the internal market. In case this should not win sufficient support the Conservatives also contended that the coercive influence of a Canadian tariff would be more effective than prayers in driving a trade agreement through the United States Senate.

European example, too, favoured the Conservative standard-bearers. In 1866 Galt thought he foresaw the ultimate victory of free trade throughout Europe and set the Canadian tariff in that direction. In 1878 however France, after abrogating the Cobden treaty, had substantially raised her tariff, and Germany under Bismarck was turning toward protection. The industrial supremacy of England and the efficiency of protected American industry seemed to offer no external possibilities for expansion in manufacturing lines. Therefore, said the Conservatives, why not allow Canadian industrialists an opportunity at home? The National Policy could, it was claimed, produce a balanced economy by giving the farmer a market at his front door, as well as abroad.

In the closing months of the campaign, in response to Macdonald's invitation, manufacturers from all parts of the country participated in drafting the first National Policy tariff schedule, and later the Manufacturers' Association claimed most of the

[19] Sir Francis Hincks, "Relations of Canada with the United States," *North American Review*, vol. 130 (1880), pp. 338–355, esp. p. 347.

credit for it.[20] The protective duties levied in the tariff of 1879 did not extend to many imports which were needed in developing Canadian resources, and the act (42 Vict., c. 15) contained an extensive free list. Tilley, the new Minister of Finance, declared that "the policy of the Government" was "to select for higher rates of duty those [goods] that are manufactured or can be manufactured in the country." [21] In fulfillment of campaign pledges hedging in favour of reciprocity the tariff provided for the remission of duties on a list of agricultural products and raw materials including coal if the United States would reciprocate. This offer was not taken up by the United States until 1883 and then led to controversy with small concrete results.

The National Policy tariff was completely altered in form from its predecessors. Tilley pointed out that the fall in prices had resulted in inadequate revenue under the ad valorem tariff.[22] Many duties were therefore made specific. The old system of arranging items in 10 and 5 per cent schedules was given up, for the interdependence existing between commodities at different stages of the integrated production process tended to make broad generalizations with respect to rates inequitable. So began the development of the vast conglomeration of classifications which make up modern tariff schedules in Canada.

The n.o.p. list, of greatly reduced importance owing to the many new classifications, was raised from 17½ to 20 per cent. Many agricultural duties which had been removed in 1874 were restored in 1879 to convince the farmer that he had a stake in the National Policy. Ten cents a bushel was placed on oats and 15 cents on wheat and barley. Oatmeal was charged ½ cent per pound, buckwheat flour ¼ cent per pound, rice and sago flour 2 cents per pound, and wheat flour 50 cents a barrel. The duty on oatmeal amounted to about 21 per cent, and the revenue duty on

[20] Sir John was said to have remarked in a speech at Hamilton "let each manufacturer tell us what he wants and we will give him what he needs." Porritt, *Sixty Years of Protection,* p. 317. See also Clark, *Canadian Manufacturers' Association,* p. 7.

[21] *Debates,* 1879, p. 418.

[22] *Debates,* 1879, p. 409.

rice and sago flour to 50 per cent at prevailing prices. The duty on wheat flour was about 10 per cent. Twenty per cent was imposed on cattle and live hogs, and 4 cents a pound on butter.

Many materials used in ship-building were admitted free of duty, while 10 per cent was charged on foreign-built ships registered in Canada. A specific duty of 50 cents per ton, raised the next year to 60 cents, was levied on coal and coke. The iron and steel industry received important new protection with promises of more to come. Imports of pig and scrap iron paid $2.00 per ton; puddled iron was dutiable at 12½ per cent; angles, shapes, and beams at 15 per cent; rolled or hammered iron at 17½ per cent; and forgings at 20 per cent. Steel ingots were free until they could be produced in volume in Canada. Machinery not manufactured in Canada entered free, but other machinery received protection of 25 per cent. Textile machinery was free. Hardware received 30 per cent except woodscrews which, because of charges of dumping made against British producers, paid 35 per cent.

Textiles, subject to strong competition from Britain as well as the United States, were given special consideration with higher compound duties. Grey cottons paid 1 cent per square yard and 15 per cent ad valorem; colored cotton yarns entered at 3 cents per pound plus 15 per cent, raising the duty from 17½ to between 20 and 35 per cent depending upon the price. Fully manufactured cotton articles (clothing) were taxed 30 per cent. Wool yarn and fabrics and knitted goods paid 7½ cents per pound plus 20 per cent ad valorem, and woolen clothing 10 cents plus 25 per cent. Cotton knit goods paid 30 per cent.

The petroleum industry which, in Parliamentary debates in 1876 and 1877, had been accused of building up a monopoly behind the tariff, recovered part of the protection it had lost at the hands of Cartwright. Rates on petroleum products were now raised from 6 cents to 7.2 cents per imperial gallon. Duties on kerosene amounted to about 38 per cent. Portland cement bore 20 per cent; lumber and shingles 20; and furniture 35 per cent. Boots and shoes, harness and saddlery, long recipients of inci-

dental protection, were now given 25 per cent. Refined sugar received 1 cent per pound plus 35 per cent ad valorem, and molasses 25 per cent.[23]

The act of 1879 defined dutiable value with greater rigour than heretofore. The fair market value of goods for duty was henceforth to be the ordinary wholesale price at which goods were sold for home consumption in the country of manufacture without deductions for any export drawback which might be allowed in that country. This provision seems to have been aimed specifically at bounty-fed European sugars.[24] For countries other than Great Britain and Ireland the cost of inland transportation in the country of origin was included in value for duty. This provision was made more explicit in 1885 (48–49 Vict., c. 61). By an act of 1883 (46 Vict., c. 12) fair market value had to be reckoned at the price at which usual and ordinary credit terms were obtained without the allowance of any cash discounts.

The single tariff act of 1879 does not provide a completely comprehensive picture of the scope of the National Policy. Not until 1887 did Canada attain a stable level of duties or protection reach its apogee. During the eight years following 1879 the iron and steel duties were raised, and a bounty system of generous proportions adopted. Duties on textiles mounted as the industry expanded. Almost all sectors of Canadian industry were covered by the tariff. The British preference on salt was retained, but the principle was not extended.

Aside from the 10 cents per ton increase in bituminous coal duties, the tariff changes of 1880 were not important (43 Vict., c. 18). By an act of 1881, materials, whether natural products or manufactures, used in Canadian manufacturing industries could be transferred from the dutiable to the free list by order-in-council (44 Vict., c. 11). The Governor in Council could also allow a drawback on certain articles manufactured in Canada for the construction of the Canadian Pacific Railway equivalent to the duties on such articles (44 Vict., c. 12). In 1882 increases of

[23] For selected National Policy rates, see Table 14.

[24] *Debates,* 1879, p. 416.

5 per cent were imposed on some six commodities. However, steel plates, fish plates, and railway bars were kept on the free list, and the duty on iron scrap was reduced from $2.00 to $1.00 a ton (45 Vict., c. 6). In 1883 the principle of differentiation of rates for a given commodity on qualitative grounds was extended. Lubricating oil costing over 30 cents a gallon was assessed 25 per cent while lower priced oil bore a flat 7.2 cents (46 Vict., c. 13).

From 1883 to 1887 changes in rates and classifications were steadily evolving a more protective tariff. In 1883 the 25 per cent duty was increased to 35 per cent on mowing machines, self-binders, harvesters, ploughs, and the like (46 Vict., c. 13). In the same year a specific duty of $5.00 per ton was placed on steel ingots which had been left on the free list in 1879; but in 1884 beams, sheets, and angles used in the composite ship-building industry of the Maritime Provinces were placed on the free list (47 Vict., c. 30).

Certain administrative features of the customs act also increased the act's protective quality. The features relating to the addition of inland transportation costs and the refusal to allow cash discounts when arriving at dutiable value have already been mentioned. In 1884 a 2½ per cent differential was established on sugar brought direct from the place of original production into a sea or river port of Canada (47 Vict., c. 30). This measure was aimed at American refined sugar, the original source of which was the West Indies. Though refining interests were more eager to cut off supplies of British semi-refined yellow sugar originally exported to Britain from Germany under heavy bounties, no action was taken to raise the duties on yellow sugar until 1891.[25] In 1885 when any manufactured article was imported in separate parts and not specifically dutiable, each such part was charged the same rate of duty as the assembled product on a proportionate valuation (48–49 Vict., c. 61). This was calculated to discourage the evasion of duties which had been accomplished by assembling foreign-made parts in Canada and selling the product in competition with domestic manufacturers. In 1884

[25] *Macdonald Papers,* 1884–85, Misc. 2, April 7, 1885.

the average rate of duty on dutiable imports approximated 25 per cent.[26] When adverse conditions in 1885 produced a budget deficit, heavier taxation was imposed on luxury goods, tobaccos, and spirits.

In 1887 after consultation with many manufacturers, now in general strong advocates of protection, the protective force of the iron and steel, farm machinery, and textile schedules was increased.[27] The practice of establishing minimum levels on an ad valorem basis for commodities subject to specific duties was begun. Iron and steel forgings, for example, were raised from 20 per cent ad valorem to 1½ cents per pound, with the proviso that the duty was not to fall below an ad valorem equivalent of 35 per cent.[28] The bounties on pig iron, later extended to secondary iron and steel products, are discussed in the next chapter.

The National Policy received its first trial before Canadian opinion during a period when recovery began to dissipate the depression in the United States and Canada. Good crops in the Dominion coincident with inferior harvests in Great Britain tended to stifle agricultural criticism of industrial protection. Furthermore, the completion of rail connections with St. Paul brought a boom in the settlement of Manitoba.[29] In 1882, 60,000 settlers entered the West, and 3,000,000 acres of land were homesteaded.[30] The balance of trade became favourable in 1880, and the terms of trade turned in favour of Canada.[31] When deflation again set in after 1883 import prices fell more rapidly than export, and the burden of the tariff was reduced.

The fiscal function of the tariff was not at first impaired by its protective quality. In 1880 over 76 per cent, as compared with 74 per cent in 1870, of all federal receipts came from the tariff.

[26] MacLean, *Tariff History*, p. 47.

[27] MacLean, *Tariff History*, pp. 27–28. MacLean compares National Policy rates with those of Cartwright's revenue tariff.

[28] For details of the rate changes of 1887 and a comparison with earlier and later rates, see Table 14.

[29] Manitoba entered the Dominion in 1873.

[30] Skelton, "Economic History," p. 151.

[31] Taylor and Michell, *Statistical Contributions*, II, 6, Table D.

Even when the federal surplus rose to almost \$6,500,000[32] the government did not see fit to reduce the revenue duties. The strength which surpluses could give to the credit of the Dominion were valued in the financing of the Canadian Pacific Railway abroad. It was realized too that if the United States took up the standing offer of reciprocity, customs revenue would suffer.[33]

Tilley, in his budget presentation in 1879, expressed the wish that henceforth a larger portion of the revenue be derived from duties on foreign rather than on British imports; but, relatively speaking, imports from Great Britain continued to lose ground to American products. In 1885, when Canada imported \$41,000,000 of goods from Great Britain, the duty paid thereon amounted to \$7,600,000. Imports from the United States amounted to \$47,-000,000 and yielded duties of \$6,600,000. From 1874 to 1879 British goods entering Canada paid an average duty of 16 per cent, and from 1879 to 1884 about 19.4 per cent. Goods from the United States paid about 9.5 per cent ad valorem in the earlier period and 14.9 per cent after 1879.[34] Thus, though Britain was relatively more generously dealt with, her goods still paid on the average 4.5 per cent more than those from the United States. Imports from the United States were of course largely industrial raw materials (raw cotton imports increased 175 per cent between 1877–78 and 1881–82), partially manufactured goods, and heavy iron and steel products, which were not onerously taxed because of their importance to the growing industrial community. British goods bore a larger number of revenue duties. Despite the National Policy, the transcontinental railway, and the oratory on behalf of Empire and internal east-west trade, trade with the United States rose from 43 per cent of the Canadian total in 1874–1880 to 47 per cent in 1881–1887. Trade with Britain meanwhile fell from 51 to 49 per cent in the same periods.[35]

[32] *Debates,* 1883, p. 333.
[33] *Debates,* 1883, pp. 337–338.
[34] *Debates,* 1885, p. 319.
[35] *Unrestricted Reciprocity* (Toronto: Hunter, Rose, 1888), p. 20.

The tariff of 1879 had listed certain articles which would be admitted duty-free from the United States when that country admitted similar articles free from Canada; at the time Macdonald had hopes of getting action by the United States.[36] In 1883, however, when the United States offered reciprocal free entry for coal, coke, iron ore, timber, lumber, lumber products, and salt, the Canadian government refused to reciprocate because all the articles listed by Canada were not included. In 1886, after some heated exchanges, these articles were placed on the free list in both countries.[37]

Despite its stiff-necked attitude in this matter the Macdonald government was not averse to reciprocity with the United States. The expiration of the fisheries provisions of the treaty of Washington had led to a snarl in Canadian-American relations. The first Cleveland administration (1885–1889) was favourable to reciprocity and eager to adjust disputes over the fisheries, canal tolls, and many other questions. When Sir Charles Tupper went to Washington in 1886 he offered reciprocity in any articles acceptable to both countries, but he found that the Americans would not barter fishing privileges for reciprocity.[38] Though the Cleveland administration insisted on a prior settlement of fisheries grievances, it remained truly desirous of reciprocity but, for political reasons, wanted reciprocity by concurrent legislation. Macdonald transmitted the news that "Canada would be glad to return in principle to the Reciprocity Treaty of 1854." [39] Though Sir John preferred a formal treaty he was willing to entertain the suggestion of reciprocity by concurrent legislation. But the fisheries controversy generated more and more heat, and in 1887 diplomats met in Washington to try to iron out Canadian-

[36] *Macdonald Papers,* 1889, Sessional Memoranda, No. 8, H. Bowlby Willson, November 1878.

[37] *House Misc. Docs.,* No. 397, U S., 50th Cong., 1st sess., vol. 6, and *Debates,* 1888, p. 516.

[38] *Macdonald Papers,* Washington Treaty, 1888, I, Negotiations of 1874–88, pp. 259–260.

[39] *Macdonald Papers,* 1886–87, Misc. 1–2, Macdonald to Ritchie.

American relations. Again Tupper proposed to bargain fishing privileges for reciprocity, and again he failed.[40]

Meanwhile, a group inside and outside governmental circles in both countries was strongly supporting commercial union. The impetus to this movement came from the United States where proposals for a Canadian-American tariff were by no means new. In Canada the movement was a manifestation of desire for access to American markets, and as such was rooted in Canadian ambitions for reciprocity with the United States. The moving spirits of the agitation in the United States were Erastus Wiman, a Canadian who had prospered in New York, and S. J. Ritchie of Ohio, an American with large interests in Canada, especially in copper and nickel. Wiman spoke at many farmers' institutes in Ontario in the summer of 1887, and Ritchie kept up an extensive correspondence with Macdonald. On the Canadian side, Goldwin Smith, despairing of Canadian nationalism, had begun to advocate commercial union.[41] The movement also enlisted the support of Edward Farrer, influential editorial writer for the Toronto *Mail*, and Valancey Fuller, a breeder of fine cattle. To undermine the prejudices of the protectionists, both in Canada and the United States, was the task to which they bent themselves in 1887. Farmers and low tariff advocates gave the movement strong support in Ontario and the Maritime provinces.[42] Canadian and American papers began to publish many discussions on commercial union.[43] Proposals for complete reciprocity appeared in the United States House of Representatives.[44] Measures for recip-

[40] James Morton Callahan, *American Foreign Policy in Canadian Relations* (New York: Macmillan, 1937), p. 373.

[41] Goldwin Smith, "Canada and the United States," *North American Review*, vol. 131 (1880), pp. 14–26, esp. p. 19, and Arnold Haultain, *Selections from Goldwin Smith's Correspondence, 1846–1910* (New York: Duffield, 1913), pp. 22 and 86.

[42] See *Handbook of Commercial Union, a Collection of Papers Read before the Commercial Union Club, Toronto, with Speeches, Letters, and other Documents in favour of Unrestricted Reciprocity with the United States, preceded by an Introduction by Goldwin Smith*, edited by G. Mercer Adam (Toronto: Hunter, Rose, 1888).

[43] Clippings in *Macdonald Papers*, Commercial Union, 1886–87.

[44] U.S. *Cong. Record*, 50th Cong., 1st sess., H. Res. 129, pp. 1746, 2157 and H.R. 6668, p. 984.

rocity or commercial union, however, were shelved by Congress during the session of 1887–88. A year later, in the closing days of the Cleveland administration, the House of Representatives adopted a joint resolution authorizing the President to appoint a commission to consider commercial union whenever Canada declared its willingness to participate, but Senate action was blocked by the objection of one member.[45]

Before the Republicans, the traditional party of protection, returned to power in the United States, the Conservatives had secured a renewal of their tenure in Canada. In the election of 1887, however, the parties offered no such choice as in 1879, for Mackenzie had retired from the Liberal leadership, and Edward Blake, his successor, refused to make the tariff an issue.[46] After the Liberal failure in those elections, Blake resigned the leadership to Wilfrid Laurier, who in 1876 had declared himself to be a moderate protectionist.[47]

Though Macdonald wrote Tupper after the election that commercial union was a dead issue in Canada because the country had connected it with annexation and repudiated both,[48] the movement still had vitality. Discontent was again rife in Canada in the later 1880's. Nova Scotia was full of secessionists because of the high tariff, and all the provinces were dissatisfied with Dominion financial policy.[49] To air these and other grievances a meeting of the leading statesmen of the provincial governments was held at Quebec in 1887. Instead of endorsing commercial union, however, the delegates passed a resolution in favour of unrestricted reciprocity.[50] They wished to see Canada preserve its customs organization but extend reciprocity to any and all products, manufactured or natural, if the United States would do the same.

[45] *Cong. Record,* 50th Cong , 2d sess., pp. 2539 and 2583.

[46] Skelton, *Laurier,* I, 334.

[47] *Debates,* 1876, p. 591.

[48] *Macdonald Papers,* 1886–87, Commercial Union, Macdonald to Tupper, January 15, 1888.

[49] *Report on Dominion-Provincial Relations,* I, 55.

[50] C. R. W. Biggar, *Sir Oliver Mowat* (2 vols., Toronto: Warwick Bros. and Rutter, 1905), II, pp. 507–509 and 573–574.

Here lay an opportunity for the Liberals. Agricultural recession, the slow development of manufactures, and the migration of Canadian labour to the United States were shaking the faith of some supporters of the National Policy, and there remained within the Liberal party some outstanding men of an older generation who clung to low tariff principles or free trade. Of these none was more vehement than Sir Richard Cartwright.

On October 12, 1887, in a speech at Ingersoll, Cartwright opened a campaign for what he called unrestricted reciprocity with the United States. He declared that attempts to develop inter-provincial trade had been costly failures while trade with the United States was easy and could be expanded by lowering the customs barriers. To refute objections he pointed out that the people of the United States did not wish to annex Canada, that Britain needed closer friendship with the United States, and that though Canada would lose customs revenue it would benefit by higher level of prosperity.[51]

In March 1888 Cartwright was able to make his proposal for unrestricted reciprocity an official Liberal motion. In Parliamentary debate he pointed to the economic distress and heavy taxation in Canada which forced large numbers to emigrate to the United States and declared that the United States was the best and in some cases the only market for Canada's wares and that the only persons who would suffer by unrestricted reciprocity would be a few vested interests corruptly allied with the government.[52] The Conservative reply then and in 1889 when Cartwright repeated his proposal was that the United States would not agree to unrestricted reciprocity because it wanted commercial union. Diversion of trade would lead to the severance first of commercial and then of political relations with Great Britain. The Conservatives also held that unrestricted reciprocity would not accomplish the trade revival its movers claimed. To close the

[51] Cartwright's speech, reported in *Toronto Globe,* October 12, 1887, will be found in *Macdonald Papers,* Commercial Union, 1887–88.

[52] *Debates,* 1888, pp. 144–160.

debate they amended Cartwright's motion to the contrary declaration that Canada wanted trade relations with the United States in so far as these did not conflict with the National Policy of fostering industries.[53]

In the debates the effect of unrestricted reciprocity upon the imperial connection was much discussed. Cartwright and his supporters argued that unrestricted reciprocity would be no more detrimental to British interests than the protective tariff then in effect.[54] They also pointed out that it was not disloyal to consider the interests of Canada rather than of a small group of British manufacturers, who probably would benefit in any case from increased prosperity in Canada.[55] For the sake of argument the Conservatives sometimes praised the imperial federation movement which was attracting some attention at the time. Imperial federation called for a federal parliament and uniform tariffs, both of which Macdonald privately condemned as unworkable and politically impossible.[56] Charlton, one of the most vigorous Liberals in the debate of 1889, accused the opponents of commercial union of inconsistency for saying in one breath that unrestricted reciprocity would lead to annexation and in the next that the United States would never make a reciprocity treaty because it wished to annex Canada. He held that reciprocity would break down the case for annexation.[57] He thought that commercial union might be even more beneficial than reciprocity and declared that the Conservative suggestion of imperial federation was impractical because Britain would never enact discriminatory tariffs and pay prices for Canadian goods higher than those of the world market. Imperial federation would also mean that Canada would have to sacrifice some of her autonomy and participate in Britain's foreign wars. He believed that Britain would sanction

[53] *Debates,* 1888, 161–170, and 183–194; *ibid.,* 1889, pp. 458–468, 472–478, and 479–495.

[54] *Debates,* 1888, p. 155.

[55] *Debates,* 1889, pp. 491–492.

[56] Pope, *Sir John A. Macdonald,* II, 215.

[57] *Debates,* 1889, p. 492.

an arrangement such as Cartwright proposed since she had approved the draft of the Brown treaty of 1874. Here Charlton was on firm ground. Joseph Chamberlain had already declared, in words that American advocates of commercial union were fond of quoting, that Great Britain would not block Canada's wishes.[58] Lord Lansdowne, while governor general, had written to the colonial secretary pointing out that commercial union would probably estrange the Canadians from the United Kingdom and draw them closer to the United States, but, he asked, could Great Britain oppose a Canadian policy simply on the ground that her own interests would be impaired? [59]

While these discussions were going on in Canada, the prospects for reciprocity did not seem particularly bright in the United States. As already mentioned, Congress failed to pass a motion for commercial union in the closing days of the Cleveland administration. Then the highly protectionist Republicans came into power after an election in which the tariff was avowedly an issue. Though a grudging form of reciprocity with Latin America was included in the tariff of 1890, all efforts to obtain favours for Canada failed.[60] Hope of reciprocity revived, however, when reaction against the high tariff brought victory to the Democrats in the Congressional elections of 1890.

In the Parliamentary debate of 1889 Tupper declared that the Government was ready to make a commercial agreement with the United States, though not to sacrifice the interests of Canada.[61] Indeed, from this time forward, the Conservatives found it ex-

[58] Quoted in *Cong. Record,* 50th Cong., 2d sess., vol. 20, p. 2539.

[59] *Macdonald Papers,* Commercial Union, 1886–87, Lansdowne to Sec. of State for Colonies, October 31, 1887.

[60] According to Ritchie, Macdonald's correspondent, McKinley, the sponsor of the tariff bill, gave assurances that he would agree "upon a bill for free exchange of all or a certain number of articles between the two countries" as soon as the tariff was out of the way (*Macdonald Papers,* Commercial Relations with the United States and Nickel, 1890–91). McKinley's official biographer, however, declares that he was no friend of such a measure at this time (Charles S. Olcott, *Life of William McKinley* (2 vols., Boston and New York: Houghton, Mifflin, 1916), I, 179.

[61] *Debates,* 1889, p. 478.

pedient to take more cognizance of the sentiment for reciprocity.[62] George Taylor of Gananoque wrote to Macdonald in October 1890 that the Grits were going to campaign on commercial union and suggested a resolution in favour of reciprocity if England were included because this would gain popularity and spike the Liberal guns.[63] Though Macdonald did not follow the suggestion, in December 1890 he proposed to the United States a renewal of discussions on reciprocity. The offer was accepted and Macdonald then tried to represent to the Canadian people that the initiative had come from the United States. In February 1891 Parliament was dissolved. The election of 1891 was fought on restricted versus unrestricted reciprocity. Macdonald won largely by the efforts of anti-reciprocity forces, notably the Canadian Pacific Railway, alarmed for its future traffic and land sales.[64] After the election Macdonald wrote that the opposition almost carried with unrestricted reciprocity but that the Conservatives "worked the 'loyalty' cry for all it was worth." [65] When the Liberals were defeated, they tried to insist that the proposed negotiations with the United States take as their basis the widest possible reciprocity both in manufactured and natural products.[66] The Canadian Manufacturers Association, however, went on record after the election in opposition to any policy which would bring them into what they regarded as unequal competition with foreign manufacturers. They believed in all the National Policy stood for and opposed unrestricted reciprocity with the United States in manufactured products.[67]

[62] Millers and farmers of the Toronto area in 1889 threatened to organize against them at the next general election if nothing were done to improve trade relations with the United States. (*Macdonald Papers,* Finance and Trade, and Tariff, 1890–1891, M. McLaughlin to MacDonald, March 22, 1889.)

[63] *Macdonald Papers,* Commercial Relations with the United States, 1890–1891, Taylor to Macdonald, October 1890.

[64] Skelton, *Laurier,* I, 416–417.

[65] *Macdonald Papers,* Misc. 2, 1890–91, Macdonald to W. H. Smith, April 8, 1891.

[66] *Debates,* 1891, c. 1252.

[67] *Macdonald Papers,* Commercial Relations with the United States, 1890–1891, April 18, 1891.

Since the administration in each country was really opposed to reciprocity, negotiations were slow in getting under way and foredoomed to failure. Early in 1892, when the commissioners met, Blaine, secretary of state of the United States, proposed commercial union, probably knowing that it would be unacceptable.[68] The Canadians replied that revenue requirements and relations with the British Empire prevented them from entering into such a commercial union with the United States. The Conservatives then declared in Parliament that reciprocity was dead.[69] As a matter of practical politics, it was. In 1893, after the Democrats' return to office, Tupper and Bayard renewed conversations on reciprocity in London, and Bayard reiterated Cleveland's desire for reciprocal free trade in natural products by concurrent legislation rather than by formal treaty.[70] Nothing came of this, and when Laurier sent representatives to Washington at the close of 1896, neither he nor the Americans were interested in reciprocity.[71]

All the talk of reciprocity simply ruffled the waters during Macdonald's last years. Protection remained the program of the party, though Simon MacLean saw in the tariff changes and remarks of Mr. (later Sir) George Foster, minister of finance, a movement towards tariff modification and reform setting in after 1890.[72] The form of the tariff was changed somewhat at this time; slight indication of a trend back to ad valorem rates was

[68] For the attitude of the President and the Secretary of State of the United States, see Albert T. Volwiler, ed., *Correspondence between Benjamin Harrison and James G. Blaine, 1882–1893* (Philadelphia: American Philosophical Society, 1940), pp. 193–194 and 202; and John W. Foster, *Diplomatic Memoirs* (2 vols., Boston and New York: Houghton, Mifflin, 1909), II, 180. Blaine was angry with Canadians because a trade convention which he had arranged between Newfoundland and the United States, giving fishing rights in Newfoundland waters to American fishermen, had been vetoed by the British authorities after Canadian protests. For this and an account of the negotiations, see *Sessional Papers,* vol. XXIV, No. 17, 1891, No. 38, esp. pp. 36–37.

[69] *Debates,* 1892, cc. 332 and 334.

[70] Callahan, *American Foreign Policy,* p. 455.

[71] Skelton, *Laurier,* II, 131, Laurier's letter to Principal Grant.

[72] MacLean, *Tariff History,* p. 34.

given, and a general systematizing of classifications was carried out. Articles previously accorded protection in the hope that they would be subsequently manufactured in Canada were put back upon a revenue basis. This could not always be done without dissatisfaction. For example, when duties on mining machinery were removed, protest was made on the ground of injury to the iron trade.[73] However, no retreat from the principle of trying to insure the security of established industries on the domestic market was apparent in the 1890 act (53 Vict., c. 20). It was contended that if an industry could establish itself in the face of foreign competition, the government should be willing to assure it sustenance through the medium of protection. The argument had, since the 1870's, partly turned from "protection to infant industries," admitted to have some theoretical validity by most economists, to "security for vested interests."

The play of opposing interests in tariff-making was strong throughout the formative years of protectionism. In 1887 malleable scrap had been admitted at a duty of $2.00 per ton. In 1889 manufacturers represented that this duty was so low that it discouraged the manufacture of puddled bars and asked an increase in the rate on scrap and a larger bounty on pig iron for a ten-year period.[74] The steel industry, on the other hand, opposed an increase in the rates on wrought iron and steel scrap, claiming that the capacity of producers of pig iron, puddled bars, et cetera, was still limited.[75] The frankest argument for protection came from a Tory manufacturer of shovels whose equipment compelled him to use more highly protected raw materials and wasteful methods. He asked for tariff consideration on the ground that he was forced to compete with less wasteful Grit producers.[76]

The textile industries were favoured in 1890 by an increased

[73] *Macdonald Papers,* Finance and Trade. Tariff, 1890–1891, A. B. Barry to Macdonald, February 28, 1890.

[74] *Macdonald Papers,* Misc., 1888–89, February, 1889.

[75] *Macdonald Papers,* Sessional Memoranda, 1889, No. 7, Steel Industry to Tupper, February 15, 1888.

[76] *Macdonald Papers,* Finance and Trade. Tariff, 1890–1891. Chilean Jones to Macdonald, February 27, 1889.

quent loss of revenue of about $3,500,000. Direct importation from the country of origin was required for the sugar to enjoy this free import clause. If not imported from the country of origin, raw sugar paid a 5 per cent duty. To placate domestic producers of beet sugar, bounties of $1.00 per hundred pounds were given on raw beet sugar produced in Canada, in addition to 3½ cents per hundred pounds for each degree or fraction of a degree of polarization over 70 Dutch Standard (54–55 Vict., c. 31). Refined sugar above 14 D.S. paid .8 cent per pound. Part of the loss in revenue incidental to the removal of the raw sugar duty was made up by an increased tax on malt and distilled spirits. In 1892 the government was given authority to suspend the free import from the country of origin clause if the country in question did not grant Canada most-favoured-nation treatment (55–56 Vict., c. 21).

Representative interests throughout Canada were consulted prior to the enactment of the tariff amendment of 1894. Canadian agriculture had reacted acutely to price decline combined with crop failures in the early 1890's, and for the first time the political influence of Western Canada became effective in the struggle for tariff reduction. The capacity for organized action to an extent never attained in agrarian circles in the East has been an attribute of Western one-staple crop agriculture. The Liberal-Conservative Association of Moosejaw District, Northwest Territories, presented a petition to the House of Commons in 1893, praying for a reduction or a removal of the duty on "agricultural implements, binding twine, fence wire, and coal oil, . . ." [80] Similar expressions of opinion came from other parts of the prairies and from the Granger movement in Ontario. Rigid prices at home and under-selling abroad were charged against the tariff. The discontent in agriculture combined with the general economic depression of 1893 to bring about a reduction in the tariff on farm machinery, iron and steel products, and cotton textiles in 1894.

The rising and organized voice of agrarian discontent with the 35 per cent tariff on agricultural implements led the Conservatives

[80] *Journal of House of Commons*, 1893, p. 84.

to revise it downward (57–58 Vict., c. 33). The main group of farm machines, including mowing machines, binders, harvesters, reapers, and sulky rakes, as well as tillage implements, was reduced from 35 per cent to 20 per cent ad valorem. The more expensive types of equipment purchased and operated by an individual for the benefit of a group of farmers and apart from the actual farming operations were reduced from 35 per cent to 30 per cent. This list included threshers, separators, horsepower and portable saw mills. Small equipment, such as shovels, spades, and spade blanks, which had been subject to compound duties of $1.00 per dozen and 25 per cent ad valorem, were now dutiable at 50 cents per dozen and 25 per cent ad valorem. Plough plates, mould boards, and landsides, which were subject to a duty of 12½ per cent under the act of 1890, were now reduced to 5 per cent ad valorem. Since the iron and steel schedules were extensively altered again in 1897, a detailed analysis of the 1894 changes is not necessary.

In his budget speech of 1894 Foster reviewed the changes which had taken place since the National Policy had been instituted. He pointed out that many industries were now well established and did not need as much protection as before. He declared that the government did not intend to go back upon protection, but the policy of protection did not depend upon the percentage of the impost. The primary object in the tariff changes was "to cheapen the cost of manufactures in this country, to cheapen the cost at which the goods issue from the factory itself. . . ."[81] Two methods had been adopted to attain this end—lowering duties on raw materials and transferring raw materials to the free list. Foster said the government had endeavoured "by a reasonable protection to retain all those industries which are in the country which employ labour, and which work up the raw material of the country or use imported raw material and which are consequently benefiting the country."[82] He concluded that so far as

[81] *Debates,* 1894, col. 209.
[82] *Debates,* 1894, col. 211.

farmers were concerned protection benefited them not by raising prices but by steadying markets.

In 1879 the Dominion made a basic decision to use protection as the principal device for the creation of a diversified industrial state. The protectionist trend, broken by the Confederation tariff of 1866, was thus resumed during a period of commercial depression and when the political influence of the Maritime provinces was on the wane in Dominion politics. That the higher tariffs were adopted as an election expedient, and in response to public anger at the protectionist policies of the Washington administration, does not reduce the importance of this turning point in commercial policy. Many accoutrements of the tariff were elaborated during the first decade of the National Policy. These included subsidies to the steel industry, drawbacks and holes in the tariff to encourage domestic manufactures from imported materials, and more highly differentiated tariff schedules. The largely abortive efforts at commercial union and Empire federation troubled the political waters but did not seriously disturb the process of erecting an effective tariff wall. The economic consequences of the National Policy will be examined in the next chapter.

## CHAPTER VIII

# INDUSTRIAL GROWTH AND THE NATIONAL POLICY

ON INTRODUCING the National Policy in 1879, Sir Leonard Tilley remarked: "The time has arrived when we are to decide whether we will simply be hewers of wood and drawers of water." [1] Instead of following the laissez faire policies of the Liberals, the new Macdonald government proposed to employ a transcontinental railway system and a protective tariff to make of the Dominion an integrated industrial state, looking inward to interprovincial trade and across the sea to the markets of the United Kingdom and Europe rather than southward to the United States. Reciprocity in trade would still be offered that country, but reciprocity in tariffs, not pilgrimages to Washington, was to be Canada's policy for achieving that end. Economic union with, and perhaps political absorption in, the United States—moot questions of a decade before—were proposals out of harmony with the nationalistic bent of official policy after 1878.

Economic factors seemed to favour the success of the protectionist experiment at its inception. Canada's commercial depression of the 1870's was perhaps less severe and her recovery more rapid than in most other countries.[2] The standard of living of her people was rising, and thanks to the great decrease in ocean transportation costs and falling manufacturing costs abroad, the terms of trade were turning in her favour, a not unimportant factor in gaining support for tariffs against cheapening imports in

[1] *Debates*, 1879, p. 429, March 14, 1879.

[2] Price levels of Canadian imports dropped 26 per cent from 1873 to 1879 while the price level of exports dropped only 8 per cent (*Report on Dominion-Provincial Relations*, I, 51). See also Taylor and Michell, *Statistical Contributions*, II, 6, Table D By 1896 export prices had fallen by 13 per cent, and import prices by 36 per cent as compared with 1875.

1878.[3] The burden of fixed charges was also lightened. A lower rate of interest on capital imports after 1873 persisted through the next two decades. Although the net debt of the Dominion rose from $22 per capita in 1868 to $51 per capita in 1896 as developmental expenditures increased, net debt charges per capita for interest and amortization rose only from $1.28 to $2.07.[4] A general evaluation of the results of the first decade and a half of the National Policy in terms of commercial and industrial growth is now in order.

During the post-Confederation era, substantial progress had been made in foreign trade. Table 8 shows the aggregate amount of trade of the country by six-year periods from 1868 to 1897. Throughout this period, Canada was an importer of capital chiefly from England and the United States, and this is reflected in her passive trade balance.

TABLE 8

CANADIAN FOREIGN TRADE, 1868–1897[a]

*Millions of Dollars*

| Years | Total Trade | Exports | Imports | Per Cent of Duty[b] |
|---|---|---|---|---|
| 1868–73 ....... | $ 992 | 438 | 554 | 19.53 |
| 1874–79 ....... | 1,094 | 475 | 619 | 20.94 |
| 1880–85........ | 1,236 | 557 | 679 | 25.62 |
| 1886–91........ | 1,235 | 549 | 686 | 30.39 |
| 1892–97........ | 1,439 | 702 | 737 | 18.30 |

[a] *Canada Year Book*, 1940, p. 530 computed. See MacLean, *Tariff History*, App., pp. 47–48, for a more complete statement. These figures must be considered as estimated only.
[b] Ratio of duties collected to total imports for consumption.

The comparative degree of expansion in the various broad divisions of the export trade is shown in Table 9. Only exports of grains, vegetables, and fruits declined in value over the seventeen-year period from 1879 to 1896. The substantial fall in agricul-

[3] Mackintosh shows that iron and steel prices declined 58 per cent from 1872–1874 to 1897–1898. Ocean freight rates declined 85 per cent from 1872–1874 to 1903–1904. From 1872–1874 to 1896–1897 grains and flour declined 45 per cent, animals and meats 31 per cent, and dairy products 30 per cent. Mackintosh, "Economic Background of Dominion-Provincial Relations," p. 23.

[4] Mackintosh, "Economic Background of Dominion-Provincial Relations," p. 22.

tural prices was largely responsible for this decline. Animals and their products, forestry products, minerals, and manufactures increased 100 per cent by 1896 as compared with 1879.

TABLE 9

EXPORTS OF CANADIAN PRODUCE, 1868–1896[a]

*Millions of Dollars*

| Year Ending June 30 | Total | Animals and their Products | Grain, Vegetables, Fruits, etc. | Total Agricultural Products | Forest Products | Fish | Minerals | Manufacturing and Misc. |
|---|---|---|---|---|---|---|---|---|
| 1874..... | 76.7 | 14.7 | 19.6 | 34.3 | 27.2 | 5.3 | 3.8 | 6.1 |
| 1879..... | 62.4 | 14.1 | 19.6 | 33.7 | 13.3 | 7.1 | 3.2 | 5.1 |
| 1882 .... | 94.1 | 20.5 | 31.0 | 51.5 | 24.0 | 7.7 | 3.1 | 7.8 |
| 1886 .... | 77.8 | 22.1 | 17.7 | 39.8 | 21.0 | 6.9 | 4.1 | 6.0 |
| 1891..... | 88.7 | 26.0 | 13.7 | 39.7 | 24.3 | 9.9 | 6.0 | 8.8 |
| 1896.... | 109.7 | 36.5 | 14.1 | 50.6 | 27.2 | 11.2 | 8.4 | 12.3 |

[a] *Report on Dominion-Provincial Relations*, I, 53, Table 9A

The effects of agricultural protection in the United States and cheaper ocean transportation costs for animals and meat products are reflected in the changes in relative importance of grain as compared with animal exports. The development of new fishing grounds on the British Columbia salmon streams and in the lobster beds of the Maritimes is reflected in the fish exports. In 1890 the leading exports of the Dominion were saw-mill products, cheese, fish, cattle, and barley. Wheat had not attained great importance. The formerly substantial exports of barley to the United States were almost eliminated by the prohibitive rates of the McKinley tariff of 1890.

In view of Canada's rising secular trend, it would have been indeed surprising if imports had been much curtailed after 1879 without the protective tariff. As a matter of fact, in the first six years of the National Policy, Canadian imports were almost $60,000,000 greater than during the revenue tariff period. Of course most of this growth was attributable to normal expansion and the demands of the extensive construction program started with the building of the Canadian Pacific Railway. The accompanying

tabulation of imports per capita with the influence of price changes removed shows steady expansion.

TABLE 10

IMPORTS OF CANADA, 1869–1910[a]

| Year | Value per Capita (1900 prices) |
|---|---|
| 1869 | $14.00 |
| 1870 | 16.54 |
| 1875 | 22.49 |
| 1880 | 15.29 |
| 1885 | 20.58 |
| 1890 | 22.88 |
| 1895 | 23.58 |
| 1900 | 32.64 |

[a] Taylor and Michell, *Statistical Contributions*, II, 3, Table (a).

Taylor has shown that a strong correlation has existed between capital imports and general prosperity. Years of unfavourable balance of trade on commodity account were usually years of prosperity in the Dominion.[5] From 1881 to 1892 the trade balance was continuously passive though not to the degree of the 1900–1913 period. Imports to which protection applied fell sharply, however, in years of recession. A comparison of the year ending June 30, 1883 with the year ending June 30, 1884 shows that imports of iron and steel manufactures declined by over $1,000,000; cotton manufactures by $2,500,000; manufactures of wood by $1,000,000; leather and its manufactures by $600,000; while other manufactures produced to an increased extent in Canada, namely, glassware and earthenware, woolens, paper, hats, and caps by a total of $1,290,500.[6]

If one compares the relative importance of the main categories of imports for the years 1869–1875 with the two ten-year intervals 1876–1885 and 1886–1895, the influence of the tariff does not appear decisive. In 1869–1875, 26.5 per cent of Canada's imports

[5] Taylor and Michell, *Statistical Contributions*, II, 4, Table B.

[6] Figures quoted in article by George Johnson in *Ottawa Citizen*, August 16, 1884. See *Macdonald Papers*, Misc. 1, 1884–85.

were textiles, 12.8 iron and steel products, and 27.0 per cent agricultural products other than animals. From 1876 to 1885, textiles rose to 28.7 per cent, iron and steel declined only to 12.4 per cent, whereas agricultural products declined 3.3 per cent to 23.7 per cent. For the decade when protection was well established, iron and steel products made up 12.6 per cent of total imports, nearly the same proportion as in 1869–1875, textiles 26.0 as compared with 26.5 per cent in the earlier period, and agricultural imports 22.2 per cent of the aggregate as compared with 27.0 per cent in 1869–1875. Nonmetallic minerals, chemicals, wood and paper, and animal products were assuming greater importance than before 1879.[7] Raw materials made up 11.0 per cent of Canada's imports for 1881–1885 and 13.7 per cent for 1891–1895 as compared with 5.7 per cent for 1871–1875.[8] Greater manufacturing activity increased demands for imported raw materials.

A review of the basic statistics of the manufacturing industries of the country and a survey of general opinion after the inception of the National Policy may cast some light on reaction to the protectionist program. Later some of the important new industries will be considered in some detail. When the year 1881 is compared with the year 1891 for manufacturing industries as a whole, the first full census decade of the National Policy shows substantial expansion. Value of products increased slightly more than the number of manufacturing establishments. However, the falling price level for the period leads to underestimation of the real increases in output. Table 11 depicts this expansion.

The increase of 114 per cent in capital investment was perhaps out of proportion to the increase of just over 50 per cent in value of product and number of establishments. This result would in part follow from greater mechanization (note the relatively smaller increase in number of employees), but may also be attributed to some over-capitalization based on over-optimism regarding the country's immediate future after 1880. This conclusion is strengthened by the large number of business failures and reorganizations occurring in manufacturing industries. Money

[7] Taylor and Michell, *Statistical Contributions*, II, 4.
[8] Taylor and Michell, *Statistical Contributions*, II, 6.

TABLE 11

MANUFACTURING INDUSTRIES, 1881–1891[a]

*Money Figures in $1000*

| | 1881 | 1891 | Per Cent Increase |
|---|---|---|---|
| Number of establishments. . . . . | 49,722 | 75,968 | 51.8 |
| Capital . . . . . . . . . . . . . . . . . . . . | $165,303 | 354,620 | 114.0 |
| Number of employees. . . . . . . . . . . | 254,935 | 370,256 | 44.4 |
| Wages paid . . . . . . . . . . . . . . . . . . . | $ 59,429 | 100,663 | 67.8 |
| Cost of raw materials. . . . . . . . . . . | $179,919 | 256,119 | 42.3 |
| Gross value of product. . . . . . . . . | $309,676 | 476,259 | 53.5 |

[a] *Census of Canada*, 1880–81, vol 3; and *ibid.*, 1890–91, vols. 3 and 4.

wages per worker were on the increase ($233 per worker in 1881 as compared with $271 in 1891), and manufacturing industries were attracting a larger proportion of the population. The number of employees in manufacturing rose more than 44 per cent, as compared with an increase of under 12 per cent in the population of Canada for the same census period.

After 1879 the Liberal leaders in Parliament attacked the National Policy with all the theoretical and practical verbal artillery at their command, but the information appearing in official sources nearly all reflected credit on the new program. Not all this evidence can be taken at face value, however. Just as the House committee on depressions in 1876 reflected the free trade views of the Mackenzie administration, so similar bodies in the 1880's found evidence to substantiate the official policy of the day. A House of Commons committee in 1882 concluded that an additional home market for Canadian industry of over $12,000,000 had been secured by keeping out American goods, and that this had been accomplished without higher prices in Canada for the foreigner absorbed the duty.[9] In a poll of rural opinion—taken by distributing questionnaires through channels of questionable objectivity, such as members of Parliament, local politicians, and farm machinery dealers—a strong vote in favour of protection was elicited. A majority of those questioned (496 to 169) said

[9] *Journal of House of Commons*, 1882, vol. XVI, App. No. 2, Report of the Select Committee of the House of Commons to Inquire into the Operation of the Tariff on the Agricultural Interests of the Dominion, May 4, 1882.

the home market for farm produce had improved under the National Policy, raw wool being the only product not beneficially affected. Remarkably enough, 438 out of 598 said farm machinery prices had not increased with the higher tariff. A large majority (419 to 156) still favoured reciprocity with the United States, and they believed the Canadian tariff would be an effective bargaining device to that end.

Some regional bias on the tariff question came out in the 1880's, though not as strongly as in later years. In the Maritime provinces opinion was divided, though most of the comments elicited by inquiries in 1882 were unfavourable to the National Policy. Adverse reaction would have been expected from the export industries and perhaps from industries dependent upon imports of raw materials for their existence. The lumber industry of the Maritimes, already hard hit by the near extinction of wooden ship building, was deeply depressed in the 1880's according to the report of Edward Willis on the manufacturing industries of the Maritime provinces in 1885.[10] John A. Mackasey of Halifax objected to what he called the anomaly and injustice of admitting foreign woods free and failing to provide any bonus (similar to iron and steel subsidies) to the lumber industry.[11] Goods used in

[10] *Sessional Papers,* vol. XVIII, No. 10 (1885), Paper No. 37, p. 35ff, esp. p. 41.

[11] *Macdonald Papers,* Misc. 2, 1883, July 23, 1883. Some articles mentioned with comparable duties under the revenue and protective tariffs were:

| | *1878* | *1883* |
|---|---|---|
| Steam engines, boilers, machinery, mill saws | 17½% | 25% |
| Chains | free | 5% |
| Steel (for tools) | free | $5 per ton |
| Harness and boots | 17½% | 25% |
| Hay | 10% | 20% |
| Woolen for clothing | 17½% | 10¢ per yd. and 25% |
| Duck for overalls | 17½% | 2¢ per yd. and 15% |
| Oats | free | 10¢ per bu. |
| Cornmeal | free | 40¢ per bbl. |
| Flour | free | 50¢ per bbl. |
| Beans | free | 15¢ per bu. |
| Lard | 1¢ per lb. | 2¢ per lb. |
| Axes | 17½% | 30% |

the industry, including the lumberman's food (for the most part duty free before 1879), clothing, and mechanical equipment were now heavily taxed. He asked for repeal of the export duties on timber and imposition of duties on all foreign woods not absolutely essential for the consumer.

At Confederation, industrial leaders of Nova Scotia had expected the union to enlarge their markets in central Canada. With their abundant coal resources they saw no reason why the Maritimes should not become the manufacturing centre of Canada, as New England was of the United States. Disillusionment came soon. The ship building industry, at its peak in the 1840's and 1850's, could not compete with the steel ships of the mother country, and with cheap water transportation in the summer months coal was moved westward and attracted few industries to the Maritimes except the small forerunners of a primary iron and steel industry in Nova Scotia. In 1879 a duty of 50 cents a ton had been reimposed on coal and coke to give seaboard coal a larger share of the Quebec market. But in 1885 coke for manufacturing purposes was placed on the free list (48–49 Vict., c. 61), and in 1887 the duty was removed from anthracite (50–51 Vict., c. 39). Secondary manufacturing industries catering to the home market included sugar refining (four refineries in 1885), woodworking and furniture, cordage, rope, and twine. A cotton industry, dating from the 1860's was in poor condition, and overexpansion of a few basic lines and lack of diversification resulted in heavy losses during the depression of 1884–85. The furniture and nail and tack industries reported satisfaction with the tariff, but most of the others felt the burden of higher costs on raw materials unbalanced by duties high enough to allow penetration of the central Canadian markets.

Reports from the central provinces on the first fruits of protection, while tempered by some disappointment, were much more enthusiastic than opinion from the Maritimes. In 1885 the government appointed Mr. A. H. Blackeby to survey the industrial results of the National Policy in Ontario and Quebec.[12] He

[12] *Sessional Papers,* vol. XVIII, No. 10 (1885), Paper No. 37, pp. 4–35.

emphasized in his report that a period of experimentation must follow fundamental changes in fiscal policy, and that Canadian manufacturers were adjusting themselves to the demands of the internal market although he was able to mention some instances of successful invasion of the American market by Canadian firms from behind the new tariff wall. Blackeby collected information for 1878 and 1884 on some eighteen industries including most of the beneficiaries of the National Policy. Machinery, woodworking, textiles, paper, and miscellaneous consumer goods made up his list. The picture given was of those Canadian firms which were operating in 1878 and continued through 1884, together with the new arrivals between 1878 and 1884 which were in operation in the latter year. Firms failing or reorganized between the years of comparison were not included, consequently the picture is heavily weighted on the optimistic side. The information given covers the number of firms studied, the number of hands they employed, yearly wage bills, average wage per worker, capital invested, and the gross value of the product. For the group of firms selected, 467 old firms and 258 new arrivals, the number of employees increased by about 100 per cent, capitalization by 85 per cent, and the gross value of production by 126 per cent. Yearly wages increased 6 per cent more than the number of hands employed, making for a slight increase of about $11 per year in the average wage. Manufactures of musical instruments, miscellaneous small industries, cotton production, knitting factories, leather and brush manufactures, and paper factories underwent the largest expansion. Many of these consumer goods industries had stressed the need of protection before a House committee in 1874.[13] As might be expected, industries already fairly well established prior to the advent of protection, such as boots and shoes, clothing manufacturing, farm machinery, foundries and other iron manufactures, showed less than average increases between 1878 and 1884.

In the United States at this time the critics of the tariff were closely associating it with the growing trust problem in American

[13] *Journals of House of Commons,* 1874, vol. VIII, App. No. 3.

industry. In 1887 and 1888 combinations in restraint of trade in several Canadian cities attracted official attention. A select committee on combinations of the House of Commons in May 1888 heard evidence on alleged trade associations and combinations in the grocery trade, especially with respect to sugar, the binder twine trade, iron founders' association, farm machinery, undertakers' supplies, and coal.[14] Local price controls were also said to exist in tobacco, matches, and baking powder.

The coal dealers of several Canadian cities, notably Toronto and Ottawa, produced the most flagrant example of restrictive trade practices. The committee of the Coal Association of the Toronto Board of Trade was apparently under the dictation of the coal affiliates of American railway companies. This body took upon itself pseudo-judicial powers to fix prices and punish price cutting by fines and business ostracism. Large contracts were sold by the Association to the highest bidder at predetermined prices. This could not be considered a tariff-created combination, however, as it operated after the 50 cents per ton duty on anthracite was removed in May 1887. It was rather the extension to Canada of the tentacles of a combination in operation in the United States. The Canadian price of anthracite fell 50 cents a ton after the duty was removed in 1887, but the price had risen very rapidly just prior thereto, thus showing evidence of price rigging for political effect.

The committee secured evidence that the tariff of 1½ cents a pound plus 35 per cent ad valorem on refined sugar made it easier for the wholesaler-refiner combination to operate in that field.[15] The farm machinery industry, however, was acquitted of price fixing, and the committee did not attempt to establish a clear case for indictment of the tariff as a monopoly-breeder in Canadian trade. The cotton textile industry, the first large industry to undergo large scale combination (1884) after the tariff increases, was not investigated.

An act was passed in 1889 (52 Vict., c. 41) for the suppression

[14] *Journals of House of Commons,* 1888, vol. XXII, App. No. 3.

[15] *Journals of House of Commons,* 1888, vol. XXII, App. No. 3, p. 26.

of trusts and combination in restraint of trade. According to Porritt this act was entirely unsuccessful.[16] In 1897 reduction in the tariff was made a potential weapon in the anti-trust fight, but except when the forces fighting combinations had substantial publicity weapons at their command, such as the Press Association of Canada in its fight against the paper industry in 1897, little could be accomplished.[17]

As for the emergence of large scale production in Canada, the expansion of large enterprises was more rapid than that of smaller ones in the 1880's.

TABLE 12

DISTRIBUTION OF MANUFACTURER BY SIZE OF ESTABLISHMENT[a]

| Group No. | 1880 | | 1890 | | Variation | |
|---|---|---|---|---|---|---|
| | Output | Per Cent of Total | Output | Per Cent of Total | Increase | Per Cent Increase |
| 1 | $ 20,734 | 6.7% | $ 32,195 | 6 7% | $ 11,521 | 55 6% |
| 2 | 64,940 | 20 9 | 93,261 | 19.6 | 28,321 | 43.6 |
| 3 | 36,808 | 11.9 | 47,709 | 10.1 | 10,901 | 29.6 |
| 4 | 33,482 | 10.9 | 42,239 | 8.8 | 8,756 | 26.1 |
| 5 | 153,768 | 49.6 | 260,795 | 54.8 | 107,027 | 69.6 |
| Total | $309,732 | 100.0 | $ 476,199 | 100 0 | $ 166,526 | 53.7 |

[a] *Census of Canada*, 1890–1891, IV, 252.

Group number 1, in Table 12, includes all mechanical and industrial establishments whose output in the census year was under $2000 in value. Number 2 includes all such establishments having an output of $2000 to $12,000; number 3, $12,000 to $25,000; number 4, $25,000 to $50,000; and number 5, over $50,000. It will be noted that the group containing the smallest plants enjoyed a substantial increase over the period. The medium sized plants, represented by groups 3 and 4, expanded least, while the largest plants, in group 5, expanded most substantially.

Iron and steel producers, the farm machinery industry, and textile manufacture were perhaps the principal protagonists for, and beneficiaries of, the National Policy. Their development under

[16] Porritt, *Sixty Years of Protection*, p. 346.
[17] Porritt, *Sixty Years of Protection*, pp. 344–350.

the tariffs of Macdonald and Tilley, and later of Laurier and Fielding, will be traced in this and later chapters; in the discussion of later periods the automobile industry will be included. This group, all dependent to a high degree on tariff assistance, closely reflect the vicissitudes of the Canadian economy in prosperity and depression. Their expansion patterns, investment and employment opportunities, price policies, and resistance to depressions throw light on the success of the Canadian tariff in accomplishing its direct objective: to establish Canadian manufacturers upon a substantial and stable basis.

Producing diverse and non-competitive output these four industries have characteristics in common. All produce a major share of Canadian consumption in their respective fields. Farm machinery, primary iron and steel, and automobiles while protected or subsidized in Canada have been sold abroad in large volume. They have been beneficiaries of British preference and treaty tariff rates in British and foreign countries. Direct investment from the United States has established the Canadian automobile industry and the leading domestic supplier among farm equipment companies. British and American capital and entrepreneurship have initiated the largest establishment in the steel and textile fields. The farm machinery and automobile industries have been principal beneficiaries of loopholes in the tariff that have allowed parts of non-Canadian manufacture to enter free or at low rates. The iron and steel industry has suffered a deterioration of its economic position by this policy. It was, however, during its developmental period before World War I the principal beneficiary of direct federal subsidies.

As the *ne plus ultra* of the developed industrial state the primary iron and steel industry commands our first attention. For our consideration, primary iron and steel production may be defined roughly as the blast furnace, steel works, and rolling mills industry. Pig iron, ferro-alloys, wire rods, steel ingots, direct steel castings, structural steel, rails, and rolled or drawn iron and steel products are chief among its variegated products. Owing to different degrees of vertical combination in different firms, no pre-

cise economic definition of industries in modern economics is possible. Such delimitation is not, however, essential for our survey. All extractive operations at one end of the production process and all production of capital equipment (except railway rails) or consumer goods at the other are excluded as completely as possible.

The resumption of railway building following 1880 stimulated expansion in primary and secondary iron and steel manufactures. Government aids, moderate in 1879, were substantial by 1889. Despite $2.00 per ton import duties on pig iron and 12½ per cent on scrap, consumption of pig iron increased from an average of about 75,000 tons per annum between 1880 and 1885 to 107,000 tons from 1890 to 1895.[18] Nova Scotia and Quebec produced 100 per cent of Canadian pig iron in the 1880's and the early 1890's. In 1887 Nova Scotia produced 17,250 tons and Quebec 4,917. By 1893, the high point prior to 1896, Nova Scotia's production had risen to 41,493 and Quebec's to 8,460.[19]

The application of the principle of bounty payments to domestic production of pig iron made from domestic ores was adopted in 1883 as a temporary expedient calculated to reduce the burden of the tariff on immediate consumers of pig iron without depriving the primary industry of stimulation.[20] For the interval from 1883

[18] Slabs, blooms, billets, muck, and puddled bars, dutiable at 12½ per cent, were reduced to 10 per cent in 1880. Rolled and hammered bars were charged 17½ per cent in 1879.

[19] See Dominion Bureau of Statistics, *Iron and Steel and Their Products* (Annual Reports); or Donald, *Canadian Iron and Steel Industry*, App. B, Table I, p. 327.

[20] The thesis has been advanced that bounty payments are more expensive than a tariff from the standpoint of the national economy. This is a doubtful hypothesis. To be effective the subsidy has to be set at the difference between the higher domestic costs of production and the price at which the foreign producer is willing to market his goods in the country. This is paid out of the general funds of the government, and the incidence is on the taxpayers at large, not only the consumers of iron and steel. In the case of the tariff, regarded purely as a protective measure, it will also be set at the difference between domestic cost and the foreign price, but the burden will then of course fall on the secondary industries and ultimate consumers of iron and steel products. A reduction in the tariffs on secondary iron and steel goods following the extension of the bounty system after 1896 was quite warranted.

to 1886 a bounty of \$1.50 per ton on pig iron was established. This was to be reduced to \$1.00 per ton for the years 1886–1889 after which the bounties were to lapse (46 Vict., c. 14). In 1886 the \$1.50 per ton subsidy was extended until 1889 (49 Vict., c. 38), and not until twenty-three years after 1889 was the subsidy system finally abolished. In 1889 the subsidy was decreased to \$1.00 per ton (53 Vict., c. 22) but in 1892 this amount was doubled (57–58 Vict., c. 9). In 1894 a bounty of \$2.00 per ton was also provided for puddled bars and steel ingots and billets made from domestic ores (57–58 Vict., c. 9). The only important iron works in operation at the inception of the National Policy was the Londonderry plant in Nova Scotia.[21] It failed in 1883 because of bad management and lack of coal. The number of primary producers in Canada has never been large, and in 1897 there were only four companies on the bounty list.[22] In 1891 there were twenty-nine establishments producing iron and steel products in Canada, and by 1894 the capacity of the industry was ample to supply the domestic demand for rolling mill products.[23] New mills and blast furnaces were started in the Maritimes and at Hamilton in that year following the placing of duties on scrap and the granting of bounties on puddled iron. Donald notes that protection was most effective in the rolling mill industry, and he discounts the importance of the tariff to the primary division: ". . . practically all the successful pig iron and steel plants were started because of fundamental technical conditions that favoured their development rather than because of the application of the national policy. . . ."[24] In industries related closely to primary iron and steel, namely, the foundries and the miscellaneous iron industries, expansion was general but not spectacular after 1879. In the foundry trades from 1879 to 1884, using Blackeby's sample, capital invested increased by 74 per cent, labour employed

[21] Donald, *Canadian Iron and Steel Industry*, pp. 106–107.
[22] Donald, *Canadian Iron and Steel Industry*, p. 134.
[23] Donald, *Canadian Iron and Steel Industry*, p. 120.
[24] Donald, *Canadian Iron and Steel Industry*, p. 125.

by 83 per cent, and value of production a little in excess of 104 per cent. In the miscellaneous iron industries capital invested grew by 72 per cent, labour employed by 107 per cent, and output increased by 172 per cent. From 1878 to 1884 twelve new firms appear in the record as foundries and twenty-one as other iron manufactures.

Expansion in the farm machinery industry after 1879 compared favourably with that of products for urban use. The industry had been able to make rapid progress under the revenue tariff, and its leaders were opposed to a general protective tariff in 1876. A decade later, however, farm machinery manufacturers were fairly ardent protectionists and jealous in defense of the 25 to 35 per cent ad valorem rates of 1887.

Blackeby's survey included returns for fifty-seven factories engaged in farm machinery production in 1885. Thirty-nine of these had been established prior to 1879. The firms produced chiefly seeding and harvesting equipment. The sample was indicative of the more prosperous portion of the industry. The number of hands employed increased by 87 per cent and capital invested by about 90 per cent between 1878 and 1884, whereas the value of the product grew by 106 per cent. The ratio of the increase in output to the capital and labour employed indicates growing efficiency rather than higher prices. Similar development could be noted in other foundry-type industries. Capitalization increased by about 74 per cent, the number of labourers by 83 per cent, and the value of product by a little in excess of 104 per cent in the general foundry products group. In the industrial field as a whole, however, including the textile industries and the miscellaneous small industries which had experienced the greatest expansion in this time, the showing is somewhat better than in the implement industry. In Ontario and Quebec, for all industries, the number employed increased by 100 per cent, capitalization by 85 per cent, and the value of product by 126 per cent. Wages paid increased for the same group by 106 per cent between the inception of protection and 1884.

As for the condition of the wage earner in the implement busi-

ness, the average wage per annum per worker was $390.51 in 1878 and $395.86 in 1884, an increase of $5.35. In comparison with other industries of the same class this is a meagre increase. For instance, the annual rate of wages per man in the foundry trades generally had increased by $21.58, factory machinery workers by $15.27, miscellaneous iron workers by $51.45, and all industries combined by $11.20 over the period. The small increase in wages in the implement industry was attributed to the replacement of skilled by unskilled labour, consequent on the greater mechanization of factory processes. Pressure of demand, it was said, had impelled this change. It is, nevertheless, apparent that the benefits of the tariff were not immediately passed on to labour despite the promises of the protectionists.

Local producers almost monopolized the implement market in Ontario and Quebec, but American competition was active in the Northwest despite the tariff. Prejudice favoured United States machines on the prairies, and high freight rates from Ontario points to Manitoba, especially prior to the building of the Canadian Pacific, handicapped Canadian manufacturers. The opening of the market in Manitoba and the Northwest Territories to eastern trade by the Canadian Pacific Railway during the 1880's improved the competitive position of all Canadian manufactured products in that region. After 1884 freight rates to Western Canada from Ontario were cut by half in some instances because of competition between the Chicago–St. Paul route and the C.P.R. During the six months from July to December 1883, over $400,000 worth of machinery for farm use entered Manitoba from the south.[25]

Though the 35 per cent National Policy tariff might have been expected to retard Canadian imports substantially, implement imports actually rose to a peak of over $500,000 in 1885. The late 1880's were years of exceptionally keen competition in the domestic industry, the fruit of which was frequent combinations and absorptions. Imports were steadily reduced until the close of the decade as a result of the tariff and domestic competition. In

[25] *Sessional Papers*, vol. XVI, No. 12 (1883), Paper No. 103.

1890, however, there began an upward trend in imports which did not gain full momentum until 1898 when the $1,000,000 mark was passed. The United States was practically the exclusive source of Canadian imports, but American shipments were principally types not required in sufficient quantities to warrant domestic manufacture.

The protection of the finished product was of course only part of the National Policy. Since the implement industry was largely dependent upon imported material, the tariff on raw and partially manufactured goods was highly important. The general plan in Canada was to impose roughly two-thirds of the American duty throughout the schedule on primary and secondary iron and steel products. In the 1870's and early 1880's the Canadian producer could purchase materials on the United Kingdom market more advantageously than could the American producer, owing to the higher American tariff. This had meant lower raw material costs for the Canadian producer, but the growth of the American iron and steel industry made the United States less dependent on imported raw materials in the 1880's. The Canadian manufacturer was therefore averse to any increase in the duties on pig iron, puddled bars, and scrap, and in 1887 the Massey Company stated that the tariff had raised the price of bar iron by $10 to $15 a ton.[26]

The drawback provisions of the tariff, together with the remoteness of the western Canadian market and the small extent of the demand within the Maritime provinces, encouraged manufacturers to seek markets abroad. In the 1860's the Massey firm had started to export on a small scale to Germany, and by 1885 the company was well established in the export trade. A Massey catalogue of 1887 asserted: "We have this year for the first time completed a systematic and efficient organization in Great Britain and on the continent for the wider distribution of our goods. In England, France, Scotland, Ireland, Germany, Belgium, Russia,

[26] Donald, *Canadian Iron and Steel Industry*, p. 95.

Asia Minor, South Africa, South America, the West Indies, and Australia our machines are at work. . . ."[27] In 1890 about 5 per cent of the gross output of the industry was being exported, and for the first time the Dominion had an active trade balance in farm machinery.

What influence did the tariff have on demand and price in the domestic market? It should be said that the demand for implements is more responsive to economic fluctuations in agricultural activities than to shifts in prices or rates of duty.[28] Since individual farm expenditures for implements are usually of a secondary order of magnitude to expenditures for land, labour, and seed, demand is less a function of machinery prices than of broader economic conditions in agriculture. Before the National Policy the price range for implements was kept substantially below the United States level by domestic competition. It would appear that this was no longer true after 1880. Comparisons, however, are difficult. Differing standards of equipment, varying credit regulations and servicing privileges, and the importance of strictly local factors in the market provided opportunity for non-price competition and reduce the significance of price comparisons. Canadian firms selling in Western Canada maintained a fairly complete system of agencies throughout the prairies as early as the 1890's. The credit facilities which they offered were more liberal than those offered in the United States. In Canada a lien on the actual implement sold was enough to secure it on a time basis, whereas in the United States a complete lien on all the purchaser's assets was usually required. The following price comparison was made in two border towns, one in Manitoba

[27] See *Massey-Harris.*

[28] The average rate of duty collected on implement imports at five-year intervals 1880–1895 is shown below:

| *Year* | *Imports ($1000)* | *Average Rate of Duty* |
|---|---|---|
| 1880 | 168 | 27.3% |
| 1885 | 177 | 35.0 |
| 1890 | 135 | 43.1 |
| 1895 | 291 | 27.4 |

(Gretna) and the other a few miles away in North Dakota (Niche). Almost identical credit and competitive conditions prevailed in the two localities; the comparison—while lacking detailed accuracy—may, therefore, serve to indicate the similarity of prices in the two localities. It was made after changes in the tariff in 1894, but does not indicate that the price differential was a result of the tariff. On most of the implements specified, the tariff was 20 per cent in 1895.

TABLE 13

PRICES 1895–1896[a]

| | Gretna (Manitoba) | Niche (North Dakota) |
|---|---|---|
| Binders | $140–150 | $130–140 |
| Massey-Harris Mowers | 50–55 | 45–55 |
| Farm Wagons | 60 | 60 |
| Seed Drills | 75 | 75 |
| Gang Ploughs | 50–60 | 50–60 |
| Walking Ploughs | 20 | 18–20 |

[a] *Debates*, 1896, p 676.

Since most imported machinery was for western use that region felt the tariff more directly than the Ontario farmer using Canadian-made equipment. Even after the slashes of 1894 the duty paid on harvesters and binders entering Canada in 1895–96 totalled $26,216, of which Manitoba and the Territories paid 92 per cent. Taking the implement group as a whole, Manitoba and the Northwest Territories contributed 77.6 per cent of the duties. These and similar data were the practical basis for agrarian opinion in Western Canada that the tariff was unfair to that part of the Dominion.

To sum up, from 1876 to 1896, competition from the United States was a factor of increasing importance to the farm machinery producers in the Dominion. The powerful American units, among which McCormick and Deering were outstanding, had grown to the point where competition between them reached an intensive stage. They were, therefore, seeking foreign markets by

1880, and without the National Policy would probably have undersold the Canadian industry in its own market. In the absence of the tariff, the Canadian producers might well have been driven into the combination which followed the "reaper war" of the 1890's. The increased efficiency of the iron and steel industry in the United States served to wipe out the absolute advantage in material costs which the Canadians had enjoyed during the 1870's. In both countries the trend of farm machinery prices was downward during this period. Cut-throat competition accelerated the decline in the United States, and keen competition among many new firms in Canada kept prices down and reduced agricultural discontent with the National Policy. Agrarian discontent became a much stronger force two decades later when the keenness of competition had been dulled by combinations in Canada as well as in the United States.

This survey will be concluded with some references to an important consumer goods industry, namely, textiles. Every important branch of the textile industry appears to have received a substantial impetus from the National Policy. Not only was there an increase in the number of firms engaged in the various branches of the cotton, woolen, knit goods, and silk thread lines after 1880, but their size and financial strength expanded rapidly. In fact the period 1880–1896 was the heyday of textile expansion in Canada. Towards the end of this period the industry began to show evidence of maturity as combination and retrenchment reduced the number of units and financial control made itself evident. In 1890, for example, the Dominion Cotton Mills Company, Ltd., supported by English and American capital, was formed to amalgamate the principal grey goods mills in the Maritimes, Quebec, and Ontario. Two years later seven other cotton companies were combined by Canadian Coloured Cotton, Ltd. By 1892 these two mergers were able to control 19 out of 26 mills in Canada and 70 per cent of the machine equipment.[29] Between 1878 and 1885 seventeen cotton mills had been established, whereas no new mills

[29] *Report of Royal Commission on the Textile Industry,* p. 36.

were opened in the last decade of the century, and mills in many of the smaller cities were closed.

Expansion is reflected in the statistics of the industry during the period. During the eighties, capital invested in the cotton yarn and cloth industry increased almost four times from $3,476,500 to $13,208,121, and employees increased from 3,529 to 8,502. Net value of production expanded from about $1,800,000 in 1880 to $4,243,710 in 1890. Relatively the greatest expansion occurred in Nova Scotia and New Brunswick, but in absolute terms Quebec was already the dominant province in the industry with 44.6 per cent of the total production as compared with Ontario's 29.3 per cent, and the Maritimes' 26.1 per cent in 1890. "The expansion in the capacity of the cotton mills during the early eighties was more than sufficient to meet the domestic demand."[30] Imports of cotton cloth dropped from 47,000,000 yards in 1879 to 30,000,000 in 1883. Imports of raw cotton, the best indication of the industry's activity, increased from 11,479,000 pounds in 1879 to 23,328,000 pounds in 1883 and 34,550,000 in 1890.[31] The early mills specialized in grey cloths. With the slump of 1884, however, some diversification was necessary to relieve the over-production which the phenomenal expansion just described had created. Bleaching and calico printing equipment was installed. The completion of the Canadian Pacific provided a new outlet to the Orient. Over 5,000,000 yards were thus exported in 1887.[32]

The cotton industry was clearly a beneficiary of the new protection. The duties on printed fabrics were given a special tariff category in 1884 at 27½ per cent, and in 1887 this had been raised to 32½ per cent.[33] Duties on other cotton products ranged from 20 to 30 per cent for the early years of the National Policy. With this tariff, and cognizant of the dangers of over-production,

[30] *Report of Royal Commission on the Textile Industry*, p. 34.

[31] *Report of Royal Commission on the Textile Industry*, p. 41, Table.

[32] *Report of Royal Commission on the Textile Industry*, p. 35.

[33] Imports of dyed or coloured goods decreased from 33,000,000 yards in 1879 to 25,000,000 in 1890, *Report of Royal Commission on the Textile Industry*, p. 40.

the mergers noted above are understandable. That atomistic competition did not long persist is clear. Even in 1883 one concern found it desirable to curtail production for two months in order "that stocks might be reduced and regular prices for the goods maintained."[34] Of the 54 woolen mills examined in Blackeby's report in 1885, 19 had been established after 1879, and all had increased their production. In 1890 there were 377 mills engaged in the woolen industry, an increase of over 100 as compared with 1870. The net value of production was $4,000,000 compared with $2,290,000 in 1870.

Woolen production was undoubtedly less dependent upon the tariff than the cotton industry. It could rely on indigenous supplies of wool produced on the farms of Ontario; most of the mills were small and served local markets only. The tariff on woolens was approximately doubled by the National Policy, and apart from lighter fabrics which were non-competitive and entered at a lower rate, the duties were the equivalent of 30 to 35 per cent up until the time the British preference was applied in 1897. During this early period the Canadian woolen industry attained a high degree of prosperity from which it entered a long decline in the next dozen years or so.

The hosiery and knit goods industry received protection at the same level as the two branches of the industry just discussed. Like the two branches described above, hosiery and knitting factories expanded rapidly from 1879 to 1883 and ran into difficulties when the productive capacity of the industry exceeded the consuming power of the people. Thanks to a developing market in the Northwest the storm was weathered, and comparative stability has been the lot of this industry ever since.

None of the industries discussed in this summary appraisal of the first fruits of protectionism owed its birth to the National Policy. For the most part, their roots extended far back into colonial history. Credit for their expansion during the first decade

[34] Excerpts from the directors' report to a shareholders' meeting of the Hudon Company, quoted in *Report of Royal Commission on the Textile Industry*, p. 35.

of the protective tariff must be shared between commercial policy and the secular forces making for expansion in industrial Canada. Without protection Canadian industry would probably have been more closely integrated with the giants that were emerging during the combination era in the United States. This is particularly true of the group surveyed above.

# CHAPTER IX

## NATIONAL POLICY UNDER LIBERALISM

THE END of the long Conservative term of office in 1896 did not, as many Canadians either feared or hoped, end or seriously disturb the dominance of National Policy principles. Vociferous though the Liberals were in criticism of high tariffs and in extolling the theoretical principles of free trade, they failed to tear down the protective walls when they came into power. Rather they contented themselves with the development and extension of devices, such as bounties and preferences, to ameliorate some of the abuses and grievances of which they had complained, and maintained a general protectionist commercial policy. In fact, the next dozen years were to see many steps taken in the direction of state paternalism in Canada—steps such as railway subsidies, encouragement to the iron and steel industry, and special consideration for the textile industry—counter to the principles of laissez faire under which the Liberal party had campaigned during the early National Policy period. Only after 1906, when the power of the Laurier administration was on the wane, were any whole-hearted efforts made in the direction of freer trade.

In 1896 the election deprived the Conservatives of the power no leader had been able to wield effectively after Macdonald's death in 1891. Sapped by internal discord, the party split over the thorny Manitoba schools question. But racial passions and jurisdictional issues really played a less fundamental part in the election than the decline in agricultural prices which for years had reduced the profits of farming. As in the United States, agrarian discontent rose steadily in the first half of the 1890's, and many who had supported the high tariff party in the 1880's turned against it.

At the inception of the National Policy, farm opinion in Canada had not been averse to higher tariffs. In 1882 a select com-

mittee of the House found that farmers looked to protection to assure them higher prices and an expanded and secure home market.[1] Ten years later the home market argument had grown rather thin as the volume of domestic investment and employment declined during the depression. Furthermore, a shift of agricultural interest and leadership was taking place, and the West was becoming more and more the agricultural centre of the Dominion. As staple exporters the majority of prairie farmers had little interest in a protected market in more self-sufficient eastern Canada. Resentment grew at duties on farm equipment, binder twine, and clothing. Opposition to the tariff was also strong enough in the East to give the Patrons of Husbandry success in the Ontario elections of 1894.

D'Alton McCarthy warned the Conservatives of the strength of farm opposition to the tariff in 1893. The next year they tried to effect conciliation with reductions on farm machinery and with the institution of ad valorem duties. The trend back to ad valorem duties, continued by the Liberals after 1896, was a recognition of the increased burden of specific duties in the face of the falling price level. The Conservatives did not, however, carry the tariff downward far enough to bring the effective rates even to the levels contemplated by the original architects of the National Policy in 1879.

At the Ottawa Convention of 1893 the Liberals adopted a platform calling for a return to "tariff for revenue only," a vague phrase calculated to enable the party to reap the harvest of discontent among farm groups without committing the party to genuine free trade. The high tariff was condemned by the Liberal delegates as a creator of industrial trusts and as a "servile copy of the American system."[2] The Liberals contended that infant

[1] *Journals of House of Commons,* vol. 16 (1882), App. 2, p. 14. The Grangers and Patrons of Husbandry were the leading farm organizations in the 1890's. These organizations turned toward free trade about 1893. See Louis A. Wood, *History of Farmers' Movements in Canada* (Toronto: Ryerson Press, 1924), pp. 94–95 and 143–144.

[2] *Official Report of the Liberal Convention Held in Response to the Call of Hon. Wilfrid Laurier* (Toronto: Budget Printing and Publishing Company, 1893), p. 32.

industries nourished by protection through their natal stages had failed to mature and had either died in adolescence or had remained dependent on the tariff which was a burden carried by the exporters and consumers of the nation. Sir Richard Cartwright estimated that the National Policy had cost the consumers not less than a thousand million dollars during the first thirteen years of its life.[3] Laurier, the Liberal leader, who had avowed himself a moderate protectionist in 1876, promised that free trade would be the ultimate goal of the party though he spoke only of a careful revision of the National Policy as the immediate objective.

Despite the commitments of the Ottawa Convention, those who looked for a return to the tariff philosophy of Cartwright and Mackenzie in the budgets of the Maritime Liberal William S. Fielding, Laurier's Minister of Finance, were soon undeceived. Reductions in the budget of 1897 incited the opposition to raise the cry of ruin to Canadian industry. Sugar refining, wire, tool, and hardware manufactures especially were held to be in peril. But in view of the duties retained at, or near, former levels and the enlarged application of the subsidy system, the Conservatives could have argued with greater merit that the Liberals had stolen their doctrines and policies.

A brief summary of general rates of duty in the early National Policy years and in those of the Liberal régime indicates the persistence of protection after 1897. The Tilley budget of 1879 had provided for an average rate of duty upon dutiable imports of about 23 per cent. By 1887, the year of highest nominal National Policy rates, the average was nearly 29 per cent. The decline in prices and the use of specific duties brought the effective ad valorem rate up to nearly 32 per cent in 1891. The level existing when the Liberals attained power in 1896 was about 30 per cent. By 1903, after seven years of "tariff for revenue only," and after the British preference had reduced the duties on British goods by one-third of the general rates, the average rate on dutiable imports was still about 27 per cent. In 1879, after the inception of the National Policy, the free list covered 70 per cent of all im-

[3] *Report of the Liberal Convention,* p. 42.

ports by value; by 1896, before the first Fielding tariff, this percentage was 61; and in 1903 only 60 per cent of imports were free of duty.

Before drawing up the budget of 1897, Fielding, Cartwright, and Patterson—respectively Minister of Finance, Trade and Commerce, and Customs—held tariff hearings; like their predecessors of 1894, chiefly in industrial centres. While some farm deputations appeared with demands for the total abolition of protection or the repeal of duties on coal oil and other basic consumers goods, the farmers had not yet learned the art of organized pressure, and failed to present themselves in force.[4] Industrialists who were more expert in the lobbying art found their interests better served when the new schedules were drawn up. The pseudo-protective duties on agricultural products in 1897 did not differ materially from the original National Policy rates. Wheat received 12 cents and oats 10 cents a bushel (60–61 Vict., c. 16). Wheat flour, at 60 cents a barrel, was 10 cents higher than in 1879. Butter at 4 cents and live cattle at 20 per cent were the same as in 1879. Live hogs were dutiable at 1½ cents a pound. Some concessions were made of immediate interest to the farmer, such as reductions in the duties on wire fencing and binder twine.

The duties on iron and steel and textile products are the real bases of any Canadian tariff. By retaining protection on these basic manufactures the Laurier government gave the *coup de grâce* to free grade and "tariff for revenue only" as practical issues in Canadian politics.[5] In 1897 the duty on pig iron was reduced from \$4.00 to \$2.50 a ton and on scrap from \$3.00 to \$1.00 a ton. Steel ingots, blooms, slabs, puddled bars, and billets were reduced from \$5.00 to \$2.00 a ton. These reductions, except for scrap iron, were, however, offset by a broadened schedule of bounties.

[4] See *Montreal Gazette*, January 6 and 9, 1897.

[5] On April 23, 1897, the *Montreal Gazette*, hitherto most antagonistic to Liberal policies, conceded that "The better sense of the Ministers has prevailed in many cases" in drafting the new budget. While not approving the new double column tariff the *Gazette* doubted its practical importance.

Pig iron made from domestic ore was given a bounty of $3.00 a ton and from imported ore $2.00 a ton in 1897 (60–61 Vict., c. 6). Bounties on puddled bars, steel billets, and ingots were raised from $2.00 to $3.00 a ton. The duties on iron and steel forgings were increased from 20 to 30 per cent though angles, plates, and steel bars were reduced from $10.00 to $7.00 a ton. The general classification, machinery of iron and steel, was increased in duty from 25 per cent to 30 per cent, but mining machinery was placed on the free list. The protective objective is clear in the arrangement under which skelp for pipe-making paid $7.00 a ton except when imported by pipe manufacturers. Then the duty was only 5 per cent. Manufactured pipe bore 30 per cent. Light steel rails remained at 30 per cent, but heavy rails (not manufactured in Canada) entered free. In 1894 the rate on general agricultural implements had been reduced from 35 to 20 per cent, and in 1897 that on small tools was lowered from 35 to 25 per cent. On primary iron and steel products the reductions of 1897 varied from 35 to 75 per cent, and on secondary from 12 to 20 per cent of the previous duty.

In the textile schedules the 7½ cent specific duty on woolen and worsted yarn imported by weavers was removed, though the 20 per cent ad valorem duty was retained. Woolen and worsted cloth in the grey was reduced from 30 to 25 per cent. Finished cloth, however, was increased from 30 to 35 per cent. Revenue duties on sugar, liquors, and tobacco were increased. Crude petroleum was reduced from 7.2 to 5 cents a gallon, except when imported for the use of manufacturers other than oil refiners when the duty was 2½ cents.

The act of 1897 contemplated the use of the tariff in a new rôle as a complement to the Combines Act of 1889 in checking tariff-protected trusts. The Governor-in-council was authorized to place on the free list any commodity which was found, by a superior court judge, to be sold under monopolistic conditions. If any duty was found to operate to the consumers' disadvantage it might be reduced. Just what duties would be immune to reduction

under this provision was not indicated. The *Montreal Gazette* criticized this amendment because it gave the government power that could be readily used for blackmail.[6] There is little evidence of its use in this or any other way.

In introducing the tariff of 1897 Fielding said that the return to power of the Republican party at Washington made a moderate protective tariff essential as a bargaining weapon for reciprocity.[7] During their years in opposition, reciprocity with the United States, extending even to commercial union, had been a talking point for the Liberal leaders. In the fall of 1896, after their election, Fielding and Cartwright carried on discussions in Quebec and Washington with American leaders. Agricultural depression in the United States, however, made the Democratic administration reluctant to allow Canadian farm surpluses free entry before the November elections of that year. The influence of the populist farm support in Kansas made itself felt in the issue.[8] After the Republican victory further soundings in Washington may have been made, but when the Dingley tariff was adopted by the United States in 1897 the clause on reciprocity in that bill limited possible agreements to goods not made in the United States, closing the door on the Canadians. The Canadian tariff of 1898, for the first time since Confederation, omitted the traditional offer of reciprocity with the United States in natural products. After the breakdown of the Joint High Commission's negotiations over the Alaskan boundary in 1898–99, during which reciprocity in lumber, minerals, and certain food products was discussed, the Ottawa government gave up hope of better commercial relations with the Republic.[9]

Indicative of the attitude produced by these failures were the

[6] April 29, 1897.

[7] *Debates,* 1897 (Budget Speech) vol. I, cc. 1108–1109.

[8] Agnes C. Laut, *Canadian Commonwealth* (Indianapolis: Bobbs-Merrill, 1915), pp. 84–85.

[9] Joan M. V. Foster, "Reciprocity and the Joint High Commission, of 1898–1899," in Canadian Historical Association, *Report of Annual Meeting Held at Montreal, May 25–26, 1939.*

export duties placed on nickel, copper, and lead in 1897 (60–61 Vict., c. 17). Retaliative export duties on logs and wood pulp were also provided, to apply when duties were placed on newsprint and wood pulp by a foreign country. These duties were aimed at the United States, as in the Dingley tariff $6.00 per ton was placed on Canadian newsprint and $1.67 per ton on wood pulp.[10]

The most spectacular change in the tariff policy of Canada between 1879 and 1907 was the reëstablishment in 1897, after half a century, of a broad British preferential system, the first of many such programs within the British Empire. The rates on goods from Britain, British countries, and certain foreign countries offering reciprocal terms to Canada, were to be one-eighth less than the general rates until July 1, 1898, and one-fourth less thereafter. Though some members of the Liberal government hoped to win concessions from Britain by first making unilateral concessions to British goods, the first preference was adopted primarily to reconcile low tariff advocates to the administration's policies which now implied a continuance of the National Policy. The Liberals, in 1897, probably had little appreciation of the far-reaching consequences of the new course on which they were embarking. Conservative newspaper opinion certainly could not foresee the Ottawa agreements that lay thirty-five years ahead, for the *Montreal Gazette* remarked on the step: "The double tariff idea is not a good one. It is not likely, however, to have any serious effect." [11]

Imperial preference had never dropped completely from sight after 1846, though the mother country opposed preferences not only in Great Britain but also in the colonies. While Britain still presumed to veto colonial plans for discriminatory tariffs, it had opposed any form of reciprocity within the Empire or with the United States unless the concessions were generalized. In 1860, however, Galt had defended the right of intra-Empire negotiation

[10] *U.S. Statutes at Large*, XXX, 187–188.

[11] April 23, 1897.

of trade agreements as a part of colonial fiscal independence.[12] When the Confederate Council of 1865, which the British had authorized, sent a commission to probe the possibilities of rejuvenating trade between British North America and the British and Spanish West Indies, the home government raised no objection, perhaps because no concrete results were obtained.[13] Britain's attitude in 1882 was certainly as adamant as ever. At that time, Jamaica proposed a trade agreement, and even some form of political union, with Canada.[14] Although the Canadian government was not ready to negotiate a convention with Jamaica, it put on record its dissent "from the principle [laid down by London] that

[12] The broader question of the right of a colony to discriminate in favour of a foreign country as compared with the rest of the Empire was not settled until the Imperial Conference of 1911. The offer of reciprocity with the United States in the Canadian Customs Act of 1867 met opposition from the Colonial Office, as did the Brown-Thornton negotiations of 1874. See London *Times,* November 27, 1874. The concessions in the Elgin-Marcy Treaty of 1854, it will be recalled, had been generalized to apply to all countries. Canada successfully protested against the ratification of the Blaine-Bond Treaty between the United States and Newfoundland in 1892. See O. D. Skelton, *Canada and the Most-Favored-Nation Treaties* (Kingston: Jackson Press, 1912), pp. 8–13.

[13] The British Government warned the colonial representatives that they were to confer only with the British minister in the foreign colonies. Tupper's negotiations with Spain in 1883 and 1889 and with France in 1893, although conducted jointly with a British representative, were the first examples of direct negotiation by a Canadian representative with a European power. Brown had, of course, really negotiated with the aid of Thornton in 1874 as had Rose in 1869. Macdonald's experiences at Washington in 1871–72 convinced him of the need for Canadian rather than British negotiators when Canadian interests were at stake.

[14] In August 1883, Macdonald received a report from A. Spencer Jones on the subject of closer political union, amounting to confederation with Jamaica and the other West Indian colonies. The report was favourable. Jones said that severance of the British tie would be less likely if Canada's responsibilities were increased, and the Conservative support and the cause of centralized government, still dear to Macdonald's heart, would be strengthened by a merger with the conservative West Indian planters. Protection would be made more acceptable to the Maritime provinces in Canada as well, for union with the Indies would increase their shipping. Macdonald was willing to discuss either political union or a commercial arrangement if Britain did not object. Jamaica favoured union with Canada at this time to insure a better market for her sugar which was finding competition with the bounty-fed European product difficult. *Macdonald Papers,* 1884–85, Misc. 1, August 20, 1883.

as between portions of the said Empire no duties discriminating in favour of British as against foreign industry can be sanctioned by Her Majesty's Government." [15]

The idea of preferential trade with the mother country itself had a persistent fascination for Canadians. In 1879 Macdonald discussed a preferential tariff arrangement with Lord Beaconsfield, but the latter's defeat in the British elections ended hopes for the plan at the time, as Gladstone, Beaconsfield's successor, was an inveterate opponent of discriminatory and preferential duties. During the eighties Sir A. T. Galt, the high commissioner in London, urged Canada to set up a system of discriminatory duties favouring British trade.[16] Galt held that British Empire trade with the United Kingdom was rapidly expanding and should be encouraged by British import duties on foreign goods except food. He advised Canada to make a 10 per cent reduction in her tariff in favour of British manufactured goods. Later he went further and suggested that Canada try to obtain from the British government duties against foreign food, such as wheat, flour, and cattle.[17] But at the first Colonial Conference in 1887 Lord Salisbury said, in reply to a motion in favour of preferential tariffs, that an approach to a customs union in the Empire must wait upon a change in British opinion away from, or colonial opinion towards, free trade.[18]

In the early nineties a movement for imperial federation attracted support in Canada as well as in the British Isles. This movement included a project for an imperial parliament, imperial tariffs, and greater collaboration for imperial defense. In the election campaign of 1891 Macdonald and the Conservative party

[15] Quotation from a despatch of Lord Kimberley to Canadian government. Certified Copy of a Report of a Committee of the Privy Council (Canada), October 26, 1882. *Sessional Papers,* vol. 16, No. 12 (1883), Paper No. 89, p. 40.

[16] *Macdonald Papers,* 1884–85, Misc. 1, March 1, 1882.

[17] Galt recommended wheat duties beginning at 1*s.* and increasing 1*s.* a year till 5*s.* was reached. If Canada failed to supply ten million quarters a year, the duty was to lapse in 1887.

[18] Quoted in *Sessional Papers,* vol. XLII, No. 18 (1907–1908), Paper No. 58, p. 234.

encouraged the imperial federation movement as a counterpoise to "unrestricted reciprocity" or commercial union with the United States. While the Liberals campaigned for unrestricted reciprocity, they too flirted with imperial federation. Though Sir John was never willing to surrender control over the tariff,[19] he declared that Canada would be willing to give the British a preference of 5 to 10 per cent in return for similar favours from Britain.[20]

In 1894 a colonial conference in Ottawa was attended by representatives of Australasia, Cape Colony, and Canada, with an observer from Great Britain. George E. Foster proposed that the United Kingdom should encourage imperial trade by placing 5 per cent duties upon foreign food and raw materials in return for concessions to be given Britain in Empire markets.[21] This proposal came to nothing because of the long-established free trade, and especially free food, tradition of the mother country.

Britain's trade treaties with foreign countries also presented legal difficulties to intra-Empire trade concessions. By clauses in their treaties of 1862 and 1865 respectively, Belgium and the German *Zollverein* had the right to demand the benefit of any tariff reductions granted by one part of the Empire to another. Several other foreign powers on Britain's most-favoured-nation list could rightfully demand similar privileges. Canada had asked to be relieved of these treaties in 1881 and 1892 but without success.[22]

[19] See Reports of the Tariff Commission (British), *Chronological Statement of Imperial Preference*. MM. 60. October 20, 1921. Macdonald did not believe in one tariff for the Empire such as imperial federationists were later to suggest. He said, "No Colony will ever surrender its right to control its fiscal policy." Pope, *Sir John A. Macdonald,* II, 215.

[20] *Macdonald Papers,* 1890–91, Misc. 2, Macdonald to W. H. Smith, April 8, 1891.

[21] "Proceedings of the Colonial Conference, Ottawa, 1894," *Sessional Papers,* vol. XXVII, No. 4 (1894), Paper No. 5B, pp. 205–207.

[22] See *Sessional Papers,* vol. XVI, No. 12 (1883), Paper No. 89, pp. 10–13. In 1877 the right of adherence or non-adherence to British treaties had been granted to the Dominions. In 1899 the right of separate withdrawal from British treaties was conceded. In 1881 Canada, through Galt, high commissioner in London, requested to be relieved from the operation of commercial treaties existing between Great Britain, Belgium (1862), and the German *Zollverein* (1865). In 1892 in response to another plea of the same sort from Canada, based on the claim that these

When Canada made up her mind to introduce the first far-reaching preferential tariff the Empire had known in half a century, it generalized its offer because of the Belgian and German treaties. While the offer to extend lower rates to Britain was made unconditionally, other countries were offered similar rates only if they granted equally favourable terms to Canada. This, it may be noted, was an offer of conditional reciprocity instead of the unconditional most-favoured-nation arrangements of European treaties. Wines, spirits, and tobacco were excepted from the offer, and the preference was applied to refined sugar only when manufactured from raw sugar produced in British colonies. This was meant to exclude the German subsidized beet product (61 Vict., c. 37). Commodities receiving preferences had to be imported directly from the country of origin.

The preference was extended for the first year to Belgium, Germany, and several other European, South American, and Asiatic countries including Japan. When Laurier attended the Colonial Conference in London in 1897 he renewed Canada's plea for the abrogation of the Belgian and German treaties. Chamberlain promised that such a step would be favourably considered by British authorities if the Conference members recommended it. In response to a conference resolution the treaties were abrogated by Britain in July 1897, on the ground that they constituted "a barrier against the internal fiscal arrangements of the British Empire." [23] Although the British Foreign Office had defended the clauses requiring equality of treatment for foreign and Empire nations for many years, it now declared them to be too confining

treaties infringed her rights as conferred by the British North America Act to regulate her own trade and commerce, the foreign secretary, Lord Knutsford, replied that while Canada had the right to fix rates on customs applying equally to all countries and to the Empire, she did not have the right to establish discriminatory duties against particular foreign countries or against the mother country or in favour of particular colonies, "for no such general right has hitherto been recognized, nor is it clear that it would be admitted by foreign nations." *Sessional Papers,* vol. XXV, No. 18 (1892), Paper No. 24a, p. 2. A resolution was adopted at the Colonial Conference of 1894 calling for denunciation of the treaties.

[23] John Bassett Moore, *Digest of International Law* (8 vols., Washington: Government Printing Office, 1906), V, 317–318.

free trade the goal of the United Kingdom and asked how far the other members of the Empire could go.[26] The British, he said, had found that the Canadian preference failed to offset the effect of Canada's high tariff. Even after 1897 imports from the United Kingdom increased less than the general imports of the Dominion, though the relative rate of gain of foreign goods in Dominion markets was less than before preference was adopted. The Canadian delegates asked that their goods be exempt from the British revenue duties of 1902 and urged British duties on foreign goods so that Empire countries could have a substantial margin of preference.[27] To this, the British replied that since the United Kingdom's share of Canadian imports was only 24½ per cent in 1895–1897, and as much as 40½ per cent in 1886–1888, Canada must grant more concessions to earn favours in Britain.[28] Such a reply, complaining of the inadequacy of concessions, was, of course, a far cry from a free trade repudiation of all preferences and represented a modification of attitude on the part of the British government. At the close of the conference resolutions favourable to the imperial preference were adopted, but United Kingdom free traders and Dominion protectionists were still too far apart for an "Ottawa Conference" in 1902.

Mr. Fielding remarked in his budget presentation in 1898 that tariff tinkering would be held to a minimum, and he was as good as his word. Few changes of importance occurred until 1903.

[26] *Sessional Papers,* vol. XXXVII, No. 12 (1903), Paper No 29a, pp. 6–9. Chamberlain suggested that all protective duties within the Empire be removed against Empire countries See Archibald McGoun, *A Revenue Tariff within the Empire* (Montreal: John Lovell, 1904). Laurier in his contacts with Chamberlain, insisted on full autonomy for Canada. He refused consultation on British foreign policy on the ground that Canada would thus be committed to a policy which the Canadian people could not materially influence.

[27] By the Finance Act of 1902 (2 Edw. VII, c. 7, Imp), revenue duties of 3*d.* per hundredweight were imposed on cereals and 5*d.* per hundredweight on flour, meal, and milled products. Other duties covered tea, spirits, and glucose products. The purpose of the duties was to meet the costs of the Boer War. Eighteen per cent of Canadian exports to Britain were covered by these duties. They were repealed in 1903. See Tariff Commission *Calculations Bearing upon Various Schemes of Reciprocal Tariff Preference,* MM. 30, April 13, 1907.

[28] See next chapter for analysis of the effects of the preference on Canadian trade.

Even in that year Laurier could say, "The question of the tariff is in good shape if no one seeks to force the issue." [29] The trend of policy toward higher protection was evident, however, in several acts of 1903 and 1904. These included the imposition of a surtax on German goods, the imposition of a tariff on heavy rails, the insistence upon the working of new patents in Canada, and the introduction of dumping duties.

The German government, resentful at the discriminatory character of the preferential tariff, applied the rates of her maximum tariff to Canada in 1902.[30] Canada, in turn, placed an additional duty, or surtax, of one-third of existing duties on all imports, the chief value of which was produced in Germany (3 Edw. VII, c. 15). This trade war lasted from November 1903 to March 1910 and seriously reduced German-Canadian trade. In March 1910 Canada rescinded the regulations imposing the surtax and admitted German goods under her intermediate tariff.

The ramifications of protection were further extended in 1903. In October the government was empowered to place a duty of $7.00 a ton on heavy rails as soon as it was convinced that suitable rails were being produced in quantity from domestic steel. This was complementary to the Railway Subsidy Act of 1900 which had provided that railways receiving federal subsidies had to use Canadian rails as the latter became available. This duty was actually imposed by order-in-council on August 27, 1904, because Algoma and Dominion Iron and Steel were producing heavy rails by that time. Another complement to the protective tariff was the amendment of the patent laws in 1903. It became compulsory for a patentee to begin production within two years of taking out a patent in Canada and to sell his product at a reasonable price (3 Edw. VII, c. 46). Furthermore, after the date the patent was granted, the inventor could not import the invention patented.

Popular opinion in Canada, as in the United States, was aroused

[29] Laurier in a letter to Tarte, January 27, 1903, Skelton, *Laurier,* II, 183.

[30] In a customs law of 1902 Germany had provided a penalty tariff to be applied to countries discriminating against German exports. This might mean as much as 100 per cent ad valorem on dutiable or 50 per cent on otherwise free goods.

against the trusts which, it was alleged, owed their growth in part to tariff protection. In Canada complaint was voiced that American "trusts" used Canada as a dumping ground for surpluses. The economic disadvantage of this was not made clear. Nor was it a new problem for the Canadian manufacturer. Such was the popular feeling on the question, however, that in 1904 the government proposed the first genuine anti-dumping clause in tariff history.[31] In 1888 the minister of customs had been empowered to place arbitrary valuation on goods for duty purposes if the stated value for duty was too low (51 Vict., c. 14, sec. 15). The opportunity for administrative control of the effective rate of duty, offered by this act, was not widely employed; the Macdonald government preferred more direct measures, such as increases in the tariff itself, to this indirect approach. In 1904 Fielding held that dumping was a temporary evil to be met by a remedy that could be temporarily applied at the discretion of the minister.[32] The dumping clause written into the Customs Tariff Act in 1904 was aimed squarely at sales in Canada at prices below "fair market value," which at that time meant the selling price in the principal markets of the exporting country. It read:

> Whenever it appears to the satisfaction of the Minister of Customs . . . that the export price or the actual selling price to the importer in Canada of any imported dutiable article of a class or kind made or produced in Canada is less than the fair market value thereof . . . such article shall, in addition to the duty . . . be subject to a special duty of customs equal to the difference between such fair market value and such selling price. . . ."[33]

Goods on the free list were not chargeable with dumping duty in 1904. The special duty was neither to exceed 15 per cent ad valorem on primary iron and steel products, nor was it to be greater than half the duty in most other cases. The minister could

[31] Jacob Viner, *Dumping, a Problem in International Trade* (Chicago: University of Chicago Press, 1923), p. 192.

[32] *Debates*, 1904, vol. III, cols. 4364–4365.

[33] 4 Edw. VII, c. 11, sec. 19.

refrain from imposing the special duty if the regular duty exceeded 50 per cent ad valorem. Goods subject to export duty or excise taxes in Canada were exempt. Fielding stated that it was not intended that the dumping duty should apply unless the commodity in question was manufactured in Canada in substantial quantities, that is, commodities produced on an inadequate scale or under monopoly conditions were not to be protected by the anti-dumping act.[34]

Free goods in the general tariff schedule were first subject to anti-dumping duties in 1907 (6–7 Edw. VII, c. 11). The exemption of goods bearing 50 per cent, or higher general duties, was made mandatory at that time, though this exemption was of little practical importance as few goods fell in that category. Internal taxes in countries receiving the British preferential tariff were not included in calculating prices in the country of export. In 1919 a similar provision was made effective for foreign countries.[35] For iron and steel, rolled, drawn, and polished, the extent of dumping price below fair market value had to exceed 5 per cent for the dumping duties to become applicable. Confident that the United Kingdom refiners would not subsidize the dumping of foreign sugar in Canada, sugar refined in the United Kingdom was now exempt from the dumping duty.[36]

The period 1904 to 1906 was an active one on both sides of the tariff controversy. In 1901 the Canadian Manufacturers' Association had presented to the government a schedule of tariff changes on important manufactured commodities on which increased protection was desired. Fielding was reported as telling the Association that "if the manufacturers would educate the people to believe in higher protection, they might get what they wanted from the government." [37] The Association, therefore, embarked on organized propaganda for protection. In 1903 and

[34] Any goods might be exempted from the anti-dumping duties if the selling price in Canada was not substantially below the selling price in the exporting country.

[35] Viner, *Dumping*, pp. 195–198.

[36] Viner, *Dumping*, p. 196.

[37] *Industrial Canada*, November 1903, p. 201.

1904 it attacked the British preference as a one-sided bargain. In the issue of May 1904 *Industrial Canada* declared: "Canadian manufacturers do not favour the sacrifice of Canadian industries for the sake of a preference in the British market." In 1904, to conciliate protectionist sentiment without sacrificing the preference, Fielding proposed a maximum or penalty tariff directed at the United States.[38] But farmer opposition made the Liberals abandon this suggestion. At the same time the manufacturers won a partial victory by breaking through the practice of allowing British imports a flat reduction of 33 1/3 per cent off general rates. Ever since the adoption of preference the admission of British woolen goods had been attacked as unfair competition, and in 1904 a minimum duty of 30 per cent was imposed on British woolens. Twine and cordage, china tableware, and window glass were given minimum duties of 20, 15, and 7½ per cent respectively. In this revision of the scale of duties, bounty payments on iron and steel were continued, and the principle was extended to crude petroleum with a bounty of 1½ cents a gallon. This was to offset reductions in the duties on refined oil. Fielding affirmed the government's belief in the preferential system, however, and pledged support to Chamberlain's Empire preference program which had been enunciated in 1903.[39]

In 1905–1906, in preparation for the general revision of the tariff that was contemplated in the next budget, a temporary tariff commission consisting of Fielding and the ministers of customs and inland revenue, Patterson and Brodeur, toured the country to gauge sentiment on protection. Public hearings were held in centres of importance. The results were quite different from the hearings of 1896, as the Manufacturers' Association found difficulty in presenting a united front, and organized farmers made strong representations. Although industrial interests criticized the preference, consumers and farmers strongly opposed any increase in the existing level of protection.

[38] *Debates,* 1904, vol. III, c. 4355. Also Edward Porritt, *The Revolt in Canada Against the New Feudalism* (London: Cassel and Co., 1911), p. 30.

[39] Wood, *Farmers' Movements,* p. 249.

The changes in the general tariff enacted into law in April 1907 followed the pattern of 1897 (6–7 Edw. VII, c. 11). Duties on wrought iron billets and bars were increased from $2.00 to $2.50 per ton, and the bounty system was given a new lease of life.[40] The main class of farm machinery was reduced to 17½ per cent from the 20 per cent levels of 1894. At the same time there was adopted a 99 per cent drawback of duties paid on imported pig iron and rolled iron and steel used in manufacturing farm machinery for domestic use as well as for export. Domestically consumed railway equipment and certain springs also enjoyed the advantages of drawbacks of duty on imported iron and steel materials used in their Canadian manufacture. This was a new step in implementing the policy of selective protection that characterized Liberal tariff-making. As a counter-consideration in favour of the steel industry, a 99 per cent drawback was paid on bituminous coal imported for use in that industry. Coal mining machinery remained on the free list. The rates on electrical apparatus and parts were increased from the 25 per cent rate of 1897 to 27½ per cent. In 1907 concessions were made to the consumer at the farmer's expense, when cattle and hogs were placed on the free list—in 1897 they had borne the compound duties of 20 per cent plus 1½ cents a pound. On the other hand, boots and shoes were increased from 25 per cent to 30 per cent, and textiles were unchanged at 30 to 35 per cent levels.

In 1907 the one-third differential between British preference and general duties, breached by the wool duties of 1904, was definitely abandoned. This departure introduced greater flexibility into the system, but detracted from the value of the preference to British manufacturers because the guaranteed margin of preference was raised, in most instances, only where the compara-

[40] Bounties on pig iron from native ore were to be reduced from $2.10 a ton in 1907 to 90 cents in 1910 (6–7 Edw. VII, c. 24). A similar sliding scale at a lower level applied to pig iron from foreign ores; puddled iron bars, certain types of wire rods, and steel ingots received similar treatment. Bounties as high as $1.65 per ton were paid on wire rods made from at least 50 per cent Canadian pig iron and sold to wire makers in Canada. All the steel categories on which bounties were paid had the 50 per cent Canadian pig iron stipulation attached.

tive advantage lay with the United States, and in fields where the British could not compete.[41]

The greatest innovation of 1907 was the addition of a third column to the tariff to provide a basis for negotiating commercial treaties with non-British countries.[42] Such treaties were becoming fashionable throughout the world. Even the United States had taken steps to secure commercial favours by the reciprocity clause of the Dingley tariff from which conditional-most-favoured-nation treaties with some European countries had resulted.[43] The tariff structures in Europe particularly increased greatly in complexity in the first decade of the century. In almost all countries legislation was enacted to set up machinery for tariff bargaining. A popular form in protectionist countries was the establishment of a general tariff list modified by a conventional tariff schedule, the privilege of entry under the conventional tariff being given to countries granting reciprocal advantages and those to which most-favoured-nation treatment was to be given. To make concessions to lower tariff sentiment, and to obtain the conventional or minimum tariffs of European countries, Canada's intermediate schedule was introduced in 1907.

The right of Canada to make separate commercial arrangements with foreign powers was slowly won. In 1878 Canadian adherence to future British commercial treaties had been made optional, and the Dominion had refused to participate in several British treaties of the 1880's.[44] In 1898 the Dominions were given

[41] Margins of preference were reduced on textiles, drugs, dyes, chemicals, and leather manufactures. They were broadened on iron and steel and its products, glass and glassware, earthenware and china, silk manufactures, and paper goods

[42] A popular arrangement in protectionist countries was the establishing of a general list modified by a conventional schedule to be awarded countries granting reciprocal advantages and to most-favoured-nations. Some governments used a more elastic system, such as a maximum and minimum schedule.

[43] The United States reserved the right to decide whether the concessions granted by each country were sufficient to earn most-favoured-nation treatment. See Reports of the Tariff Commission, *Tariff Systems of Europe and America,* MM. 25, July 22, 1905.

[44] At her request, Canada was exempted from British treaties with Roumania, Ecuador, and Serbia. *Sessional Papers,* vol. XVI, No. 12 (1883), Paper No. 89, *passim.*

TABLE 14

TARIFF CHANGES, 1879–1907

*Selected Items*

| Article | 1907 Br Pref | 1907 General | 1897 General | 1887 General | 1879 General |
|---|---|---|---|---|---|
| Wrought iron | \$1.50 a ton | \$2.50 a ton | \$2.00 a ton | \$9.00 a ton | 12% |
| Iron and steel forgings | 20% | 30% | 30% | 1½¢ a lb. min. duty 35% | 20% |
| Iron and steel angles | \$4.25 a ton | \$7.00 a ton | 10% | 12½% | 15% |
| Pipe, iron and steel | \$6.00 a ton | \$8.00 a ton | \$8.00 a ton | \$12.00 a ton, min. duty 35% | 25% |
| Tinplate | free | 5% | 25% | 25% | 25% |
| Copper rods | free | free | free | 10% | 10% |
| Wire, n.o p. | 15% | 20% | 20% | 25% | 15% |
| Machinery not made in Canada | free | free | | Not Available | |
| Machinery, iron and steel, n.o.p. | 20% | 30% | 30% | 30% | 25% |
| Cotton fabrics, printed | 25% | 35% | 35% | 35% | 30% |
| Cotton clothing, n.o.p. | 25% | 32½% | 35% | 32½% | 15% plus 3¢ a lb. |
| Wool yarn | 20% | 30% | 30% | 20% plus 7½¢ a lb. | 20% plus 7½¢ a lb. |
| Knitted goods | 22½% | 35% | 35% | 35% | 20% plus 7½¢ a lb. |
| Coffee, green | free | free | free | free except from U.S., 10% | 2¢ a lb. |
| Tea | free | free | free | free | 2¢ a lb. plus 10% |
| Cattle | free | free | 20% | 20% | 20% |
| Hogs | free | free | 1¢ a lb. | 20% | 20% |
| Butter | 3¢ a lb. | 4¢ a lb. | 4¢ a lb. | 4¢ a lb. | 4¢ a lb. |
| Wheat flour | 40¢ a bbl. | 60¢ a bbl. | 60¢ a bbl. | 50¢ a bbl. | 50¢ a bbl. |
| Mfd. Tobacco | 50¢ a lb. | 50¢ a lb. | 50¢ a lb. | 30¢ a lb. plus 12½% | 25¢ a lb. plus 12½% |
| Boots and Shoes | 20% | 30% | 25% | 25% | 25% |
| Coal Anthracite | free | free | free | free | 50¢ a ton |

the right of separate withdrawal from any British treaty previously negotiated. In 1893 Sir Charles Tupper, then high commissioner in Britain, was the chief negotiator in a Franco-Canadian treaty though British diplomats also participated. French wines were then exempt from the 30 per cent Canadian duties. Nuts and certain fruits were exempt by one-third, and common and castile soaps by one-half. Canada received the French minimum tariff on fresh-water fish, lobsters, condensed milk, certain fresh and preserved fruits, and various other items (57–58 Vict., c. 2).

In 1907 the intermediate schedule provided a list of duties extending throughout the tariff providing rates from 2½ per cent to 5 per cent ad valorem less than the general rates. These rates could be extended to any country by order-in-council. In general the intermediate rates were 5 to 7½ per cent higher than the British preference rates of 1907.[45] The first revision of the French treaty, begun in 1907, was not ratified by France until 1910.[46] Canada extended the intermediate rates to medicated and medicinal wines, perfumes, ribbons, and other fancy luxury articles. Regular French wines were dutiable below even the intermediate schedule. Canadian fish, meats, lumber products, farm machinery, and other selected manufactures of iron and steel, furniture, and leather goods were given the French minimum tariff.[47] The most-favoured-nation treatment in the case of each country was confined to articles specified in the treaty. Canada offered to extend the advantages of the treaty to any part of the British Empire not already enjoying equal or more favourable treatment. Argentina, Austria-Hungary, Bolivia, Colombia, Russia, El Salvador, Sweden, Norway, Muscat, and Spain came under the French treaty as most-favoured-nations.

[45] See rates, Table 14.

[46] Laurier and Fielding negotiated this treaty entirely independently though they were nominally the representatives of Great Britain. Edward Porritt, *Fiscal and Diplomatic Freedom of the British Overseas Dominions* (Oxford: Clarendon Press, 1922), p. 202. The Canadian commissioners were appointed by orders-in-council issued at Whitehall on August 8, 1907.

[47] French treaty in *Sessional Papers*, vol. XVII, No. 6 (1907–8), Paper No. 10a.

It is doubtful whether the adoption of the three-ply tariff should be considered as an important feature of Canadian tariff history. Not until it was extended to the United States in 1935 did any important volume of trade enter under it. Countries with which treaties were made did not compete strongly with either Britain or the United States. Treaties with Japan and Italy, as well as with France, were perhaps of greatest significance. In 1907 Japan was given the intermediate tariff in return for most-favoured-nation treatment which Britain had secured in 1894.[48] Canada was thus in effect adhering to the British treaty. In 1911 Japan denounced this treaty. In 1913, after a temporary trade agreement, a new Anglo-Japanese treaty was negotiated to which Canada adhered.[49] Canada continued to give Japan the intermediate rates. A treaty of limited scope was negotiated with Italy in 1910.

Canada was also concerning herself with trading advantages within the Empire. After many years of desultory trade the West Indies became indifferent to negotiations with Canada, as evidenced by the fact that George E. Foster had failed to interest the Indies in a trade agreement in 1890. Events centring around 1903, however, revived their interest in the question. West Indian planters enjoyed a 25 per cent preference (later 33 1/3) in the Canadian market after 1898, but the American market was of overshadowing importance to them. The acquisition of the Philippines and Puerto Rico by the United States after the Spanish-American War, together with treaty arrangements that provided a preference for Cuban sugar, made the United States rather independent of the British West Indies. As a result of the Brussels Sugar Convention of 1903, which decreed the abolition of sugar bounties, the special duties which the United States had maintained against the German product were allowed to lapse. And in

[48] *Sessional Papers,* vol. XL, No. 14 (1906), Paper No. 117. Japan had arranged a commercial treaty with Britain in 1894. Owing to the limited scope of Japanese concessions, Canada elected to remain outside the convention; Japan was, however, allowed the reciprocal tariff rates in 1897. Restriction of Japanese immigration was a *sine qua non* of a Canadian treaty with Japan. In 1905 Japan voluntarily limited emigration, and Canada was then willing to negotiate.

[49] *Sessional Papers,* vol. XLVII, No. 28 (1913), Paper No. 190.

this year the Canadian surtax on German imports increased the Canadian market for the Indies.

In 1909–10 a royal commission appointed jointly by Canada, the West Indies, and Great Britain, and headed by Lord Balfour of Burleigh, reported in favour of closer intra-Empire trade relations. In 1912 out of the findings of this commission a trade agreement was negotiated between the Dominion and ten of the British West Indies colonies.[50] The agreement was made effective in June 1913. Since it belongs to the broadened treaty policy in Canada its terms may be mentioned here. In this first instance of the extension of the Canadian trade agreement program to a crown colony Canada gave the West Indies a preference on sugar with a maximum of 15 cents per 100 pounds and a minimum of 4½ cents, depending upon the degree of polarization. A preference of 50 cents per 100 pounds on arrowroot was also given to the Indies. In 1909 the Canadian government had attempted to bolster domestic sugar refiners, and at the same time stimulate the production of domestic beet, by lowering the duty on raw sugar imported for refining purposes on condition that domestic refiners use at least one-half as much domestic beet as raw sugar imports (8–9 Edw. VII, c. 10). These reductions, amounting in effect to a drawback on all raw sugar imports, were abolished (effective in 1914) so that the West Indies might have a wider margin of preference. Refiners who were non-users of Canadian beet sugar relinquished their right to import at reduced rates foreign sugar up to 20 per cent of their total production. In order to give the Indies a preference Canada was obliged to impose minimum foreign duties amounting to 75 cents per 100 pounds on cocoa beans, 5 cents a gallon on unrefined lime juice, and not less than 10 per cent on limes. Before the agreement these commodities were on the free list, and they remained free if imported from the West Indies. Other important West Indies exports to Canada received a preference of 20 per cent, but West Indies exporters were given the opportunity of continued British preferential rates, which in some cases were lower. Practically all Canadian exports

[50] *Sessional Papers,* vol. XLVII, No. 25 (1913), Paper No. 55, pp. 107–111.

to the Indies received a preference of 20 per cent. Canada also received a guaranteed preference of 12 cents per 100 pounds on flour.

Despite the limited extension of the intermediate rates outside Empire countries, British imperialists were the strongest critics of the new intermediate tariff. The value of the preference to Great Britain was not, however, as some British statesmen feared, much weakened by the addition of a third column to the Canadian tariff. Foster condemned the intermediate tariff because he said it was likely to be applied to the United States, but for a time at least his fears were groundless.[51] The act of 1907 (6–7 Edw. VII, c. 11) did, however, make it possible to limit the British preference to goods shipped directly to a Canadian port. This discretionary power given to the government was not employed until 1923. Other factors favourable to Britain were the continuance of the surtax against Germany and the government's power to use the tariff to suppress domestic monopoly. Up to 1907 the latter power had been used only with respect to the paper industry, but had worked successfully in that instance. The drawbacks on iron and steel imported for implement production, however, favoured the United States rather than Great Britain.

Shortly after the tariff innovations of 1907 Laurier went to London to attend a colonial conference. Imperial trade ties based on preferential tariffs had been dealt a blow when Chamberlain's program had not been accepted in 1906. Indeed, the bid by the Dominions for trade concessions, based on a British tariff against foreign imports, seemed closer to acceptance in 1902 than in 1907. The desire for such a policy, however, was reaffirmed by the Dominions at the 1907 meetings.[52] The delegation from the

[51] *Debates*, 1906–1907, vol. I, cols. 419–420.

[52] *Sessional Papers*, vol. XLII, No. 18 (1907–1908), Paper No. 58, pp. vii–viii. Lord Elgin, Colonial Secretary, declared that His Majesty's government was "unable to give its assent . . . to a reaffirmation of the Resolutions (of 1902) in so far as they imply that it is necessary or expedient to alter the fiscal system of the United Kingdom."

United Kingdom dissented and offered imperial free trade as an alternative. Laurier replied that Canada could not afford the loss of revenue that such a policy would entail. He said that the Canadian preference had helped British trade and that further trade expansion would follow the granting of a British preference to the Dominions. A proposed one per cent surtax on all imports of Empire countries, to be collected and spent by the various countries for defensive purposes, was rejected by Laurier on grounds that it would disturb existing tariff arrangements.

Outside the United Kingdom imperial preference gained wider recognition between 1902 and 1907. New Zealand adopted a preferential schedule in 1903, applicable to all British Dominions, as did South Africa, though the latter's preference was not extended to Canada until the following year. Australia's preference of 1907 was not given to Canada at that time. Practically all British colonies of importance except Australia had been given the Canadian preference in or before 1907.

Most of the attack on the tariff act of 1907 came from western Canada. Certain features, however, were also unpopular with the Canadian Manufacturers' Association and the industrial interests in the east. The use of drawbacks of duties on imported iron and steel materials to encourage the production of goods for domestic as well as foreign sale, as in the implement industry, nullified part of the protective force of the iron and steel schedule. Farmers' organizations in western Canada, on the other hand, were not satisfied with the 2½ per cent reductions in the farm machinery schedules. The Grain Growers and the Grange held that the benefits of this reduction were obviated by higher valuations on dutiable imports, and that actual duties were higher than before.[53] Agrarian discontent with the tariff did not reach substantial proportions, however, until 1910. Poor crops in that year and excitement stimulated by the approaching election and the rebirth of the reciprocity issue were in part responsible for the organization of the Canadian Council of Agriculture which gave the various

[53] *Grain Growers Guide,* October 19, 1910.

agricultural organizations scattered throughout the Dominion a united voice for the first time.[54] In the convention of the United Farmers of Alberta in January 1910 resolutions were adopted demanding that all implements should be admitted free of duty, and that the Dominion Government should accept the offer of reciprocity in farm implements embodied in the Payne-Aldrich tariff.[55] The removal of bounties on iron and steel in 1910, the combines investigation act of 1909, and the ending of the trade war with Germany in 1910 are indications of the practical results of pressure from agricultural and consumer groups.

Potentially the most significant commercial development after the adoption of the British preference was the new reciprocity negotiations with the United States culminating in the ill-fated agreement of 1911. Rebuffed at the failure of his reciprocity overtures of 1896–97, Laurier had then declared: "There will be no more pilgrimages to Washington. We are turning our hopes to the old motherland."[56] There can be little doubt that even Liberals of the Cartwright school had abandoned hope of improved trade relations with the government south of the border, though fear of the political effects of rebuff by the United States Senate rather than any aversion to reciprocity kept the Canadians away from Washington and led them to look elsewhere for more accessible, if less profitable, markets.

In the United States, however, political events that were to produce an offer of reciprocity to Canada were taking shape by 1909. Following the financial crisis of 1907–1908 agitation arose for

[54] Porritt, *Revolt in Canada against the New Feudalism,* p. 30, or Wood, *Farmers' Movements,* p. 205.

[55] *Grain Growers Guide,* February 2, 1910.

[56] U. S. Tariff Commission, *Reciprocity with Canada* (Washington: Govt. Printing Office, 1920), p. 28; L. Ethan Ellis, *Reciprocity, 1911, a Study in Canadian-American Relations* (New Haven: Yale University Press, 1939) in a footnote (p. 5) to a memorandum in the Philander C. Knox papers drawn up by Charles M. Pepper for Taft in 1909 mentioning a visit by Laurier to McKinley at Cleveland in 1896 following the latter's election to the presidency. Laurier was said to have offered to eliminate all tariffs on the Canadian-American border. McKinley could not promise to go that far but thought a reciprocity arrangement might be worked out. We have not been able to find any confirmation of such a visit.

tariff reform and relief from the high cost of living which the Dingley tariff and its alleged spawn of monopolies were said to have engendered. Taft, when he took office in 1909, inherited a tariff reform plank from his predecessor, Theodore Roosevelt. The Payne-Aldrich tariff bill of 1909 contained some reductions, but after much amendment by the Senate it fell far short of the expectations of the low tariff proponents, Republicans and Democrats alike. Most articulate of the disaffected groups were the newspaper publishers, who, expecting a reduction of the duty on newsprint to $2.00 or $3.00 per ton from the former $6.00 rate, had to content themselves with $3.75 per ton. Their organization, the American Newspaper Publishers Association, was the most powerful voice for reciprocity with Canada in the ensuing debate.[57]

The Payne-Aldrich tariff bill contained a clause that seemed to bode no good for Canadian-American trade relations though as it turned out it was the immediate cause of the reciprocity negotiations. Under the Dingley tariff the United States had offered to reduce her general tariff on a limited number of articles to any country offering reciprocal reduction to United States imports.[58]

[57] Ellis, *Reciprocity,* p. 12. This issue was complicated by the export duties and restrictions imposed by Ontario and Quebec on pulp wood cut on Crown lands. Ontario had already prohibited the export of such pulp wood (1902), and Quebec was threatening to do so and actually did from April 26, 1910. On August 26, 1909, the United States publishers wanted to trade free entry of newsprint for removal of all provincial export restrictions on Canadian wood, wood pulp, and paper.

[58] In Sec. 3 of the Dingley tariff, the President was authorized to conclude limited reciprocal agreements without Senate approval. United States concessions were restricted to brandies or other spirits distilled from grains, champagne and all other sparkling wines, still wines and vermouth, paintings and statuary, argols or crude tartar, and crude wine lees. Sec. 4 authorized trade treaties involving concessions up to 20 per cent on any product, but these had to be ratified by the Senate and approved by Congress. None were ever reported out of the Senate Committee on Foreign Relations. See Francis B. Sayre, *The Protection of American Export Trade* (Chicago: University of Chicago Press, 1939), pp. 5–6. Note also that the McKinley tariff (1890) had made provision for placing duties on five articles (sugar, tea, coffee, molasses, and hides) then on the free list, if the President found the exporting country was treating American goods reciprocally unequal or unreasonable.

These articles were of no material interest to Canada, and no concessions had been made by either side. Now, however, the president was required to apply a new United States "maximum tariff," 25 per cent above the general rates, to any country discriminating against American exports, after March 10, 1910. Since Canada's intermediate tariff had been extended to France and other countries entitled to most-favoured-nation treatment, thus fitting the American interpretation of discrimination, the penalty rate would be applied to her. Canada was prepared to insist that her intermediate schedule could not be applied to a country not prepared to make concessions below that country's general tariff.

President Taft, eager for peace with the publishers and the low tariff insurgents, had no desire to start a tariff war with Canada. On March 3, 1910, United States Consul-General Foster, Charles M. Pepper from the State Department, and Henry C. Emery of the tariff commission met with Fielding and Laurier in Ottawa to endeavour to obtain some concessions that would allow the president to escape from his dilemma.[59] Though the Canadians held their ground refusing to concede the intermediate tariff without some *quid pro quo,* a conference was arranged between Fielding and Taft at Albany on March 20. The results of that conference were potentially far-reaching. The United States was given the intermediate tariff on a few of the commodities included in the French treaty (about 3 per cent of United States exports to Canada), and Canada continued to enjoy the general rates under the American tariff. More important, the way was cleared for future conferences on a broad reciprocity agreement.

The reciprocity question had been kept alive by two divergent groups in Canada and the United States. In the Dominion the farmer groups were dissatisfied with higher prices for farm machinery and other manufactured goods, higher than those prevailing in the United States. In the United States the manufacturers and transportation and commercial interests along the northern frontier wanted cheaper raw materials and freer access to the

[59] Ellis, *Reciprocity,* p. 37.

Canadian market and the Canadian carrying trade.[60] Railroad magnate James J. Hill was among reciprocity's strongest supporters. His interest of course lay in drawing traffic from the lines of his Canadian competitors into the northwestern states and in routing Canadian exports through the United States. It was fear of this that made the Canadian roads strong opponents of reciprocity.

When Laurier visited western Canada in the summer of 1910, he found opinion solidifying against his tariff policy. The *Grain Growers Guide* was vehement against eastern exploitation that, it said, was effected by private ownership of elevators, control of railways, and the tariff. Free farm implements, the safeguarding and extending of imperial preference, and reciprocity with the United States were their minimum demands. In December 1910 the Canadian Council of Agriculture, made up of representatives of the Grangers and other farm groups, assembled in Ottawa and pressed their demands on the government. They requested free trade with the United States in agricultural and natural products, lumber, fish, cement, illuminating and lubricating oils, and other necessities of farm life; reciprocity in farm machinery, vehicles, and parts; and increase of imperial preference to 50 per cent and imperial free trade after ten years.[61]

In May 1910 Philander C. Knox, secretary of state in Taft's cabinet, broached the subject of a general reciprocity treaty. The matter was left hanging fire during the summer, but in November Pepper and the counsellor of the State Department, Hoyt, went to Ottawa and together with Consul-General Foster carried on informal discussions with William Patterson, minister of customs, and Fielding, on a basis for reciprocity. The Americans were prepared to offer free trade in agricultural commodities, fish, coal, and rough lumber. Certain manufactures such as farm machinery

[60] Ellis, *Reciprocity*, p. 9, mentions several national and local organizations supporting reciprocity from 1900 on, including the National Reciprocity League, Chicago, 1902–1903, and the National Reciprocity Convention under the National Association of Manufacturers, Washington, 1901.

[61] Ellis, *Reciprocity*, p. 25.

were to be free or to enter at the lowest rates in the United States minimum (general) and the Canadian intermediate tariff. Newsprint was to have a duty of $2.00 a ton in return for removal of restrictions or export taxes on the shipment of pulp wood to the United States.[62]

The snag in the negotiations came over the American request for a "comprehensive list of manufactured products to be subject to lower duties or free entry." The Canadians were fearful of breaching their tariff wall by such concessions. Fielding was also insistent that the agreement be implemented by concurrent legislation rather than by formal treaty. To this last the Americans seem to have offered no strong objections. After threatened disruption of negotiations, it was agreed that discussion should continue in Washington.

Fielding and Patterson went to Washington in January 1911. There they negotiated with secretary Knox, Pepper, and the new State Department counsellor, Chandler P. Anderson. Lists of items were drawn up by both sides, and, perhaps to everyone's surprise, agreement was reached by January 16. The agreement was to be implemented by joint legislation and was not to be binding for any specified period. The agreement itself was something of a compromise. On the question of natural products there was little dispute. Identical free lists, including all the natural products in the American and Canadian lists, were to be adopted in both countries. Identical low duties were provided on secondary food products, agricultural machinery, and a majority of the items in the French treaty, excepting textiles. Certain commodities were to be reduced in the Canadian tariff but not to the level of similar items in the American tariff; the same was to be done with selected items in the American tariff.[63] Newsprint was to be free

[62] Ellis, *Reciprocity*, p. 55.

[63] Schedule A embraced articles which were to be jointly admitted free. It included all agricultural and natural products except wool, fish, unfinished lumber, and gypsum, and a few manufactured articles of which the most important were iron and steel sheets. Schedule B which comprised articles to be admitted by each country at identical rates included secondary products or articles not made free under Schedule A, such as canned meats, vegetables, lard, oatmeal, flour, bran, etc.,

in the American tariff as soon as export restrictions on pulp wood were removed by the Canadian provinces. This was a complete victory for the newspaper publishers who lined up strongly for the agreement.

The successful culmination of the reciprocity negotiations came as a surprise to the Canadian Parliament and electorate, but the first reaction was favourable. The Conservatives had favoured a firm stand against the penalty tariff of the Payne-Aldrich bill. They were at first cautious in their criticism of the new agreement though as interested opposition groups, such as the manufacturers and railroads, rallied their forces the anti-government group, made up of insurgent Liberals and Quebec Nationalists as well as Conservatives, became more forceful in their condemnation. Robert L. Borden, leader of the Opposition, charged that the agreement would dislocate Canadian trade and transportation facilities geared to the east-west traffic.[64] Canada was, he argued, making rapid progress based on internal and Empire trade, and this agreement would discourage the United Kingdom from establishing trade preferences for the Dominion. Canada could expect the American tariff to be lowered in any event as the insurgent Republicans and Democrats were gaining power in Washington. George E. Foster, the ultra-protectionist among the Conservatives, charged that the agreement went too far and would discourage industrial expansion and new investment.[65] Canadian natural resources would be depleted to the advantage of the monopolistic manufacturers of the United States. Canada would lose its fiscal freedom. Canadian railroads would be ruined as the carrying trade was deflected through the United States. Besides reciprocity had been abandoned by both political parties

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and agricultural implements and machinery of all kinds. Schedule C contained articles on which tariff changes were granted by Canada, such as planed lumber, shingles, iron ore, and aluminum. Schedule D consisted of articles on which rate reductions were made by the United States, bituminous coal, etc. Reduction of duties in the United States averaged 10 per cent; in Canada about 5 per cent. Both countries agreed to maintain only necessary custom regulations.

[64] *Debates,* 1910–1911, vol. II, col. 2501 (Borden).

[65] *Debates,* col. 3337–3341 (Foster).

after 1897, and the Liberals had no mandate from the people to negotiate such an agreement. The bogey of annexation or political absorption was raised in Parliament, to be echoed and re-echoed in the coming campaign.

The Liberals denied that either the British connection or internal prosperity was endangered. The British preference would stand as before and all concessions to the United States would be shared by the British. At the same time the manufacturers were assured they had nothing to fear from the agreement, even though the consumers were to benefit from reduced duties on processed foods. On the positive side, Laurier, Fielding, and Patterson made their strongest appeal to the raw material producers who stood to gain the most from the American market. It should not have been hard to sell reciprocity to the Canadian people. Both parties had striven for this goal from 1866 onward, and at least before the campaign of 1911 few had questioned its potential value to the Dominion.

The agreement had a stormy but successful passage through the Congress of the United States. Farmer interests, heretofore usually on the low tariff side of the fence, opposed it strongly, as did the official organizations of the lumber industry. The high tariff Republicans opposed it as a step toward breaching the tariff wall. The newspapers were strongly pro-reciprocity because of the newsprint item, and the Democrats regarded it as a desirable step towards tariff reform. After a special session of Congress in the spring of 1911, and strong administration pressure, the measure finally passed the Senate on July 22, 1911, by fifty-three to twenty-seven. It had previously passed the House by a larger majority.[66]

Meanwhile, the government at Ottawa had lost the temporary advantage of surprise while waiting for action by the United States. Laurier was forced to adjourn Parliament for his trip to England to attend the imperial conference. At the conference he spoke in favour of autonomy for the Dominions in making com-

[66] *Congressional Record,* 62nd Congress, 1st sess., pp. 3175 (Senate), pp. 559–560 (House).

mercial treaties with foreign countries. This stand increased the fire of charges from the opposition at home that the Empire was in danger.[67]

At the conference Laurier moved that Britain abrogate, in part, her treaties with Austria-Hungary and Italy, as in these treaties the Dominions as well as the mother country were bound to the unconditional most-favoured-nation treaty principle.[68] The removal of this restriction, and that of any limitation on the freedom of action of the Dominion in negotiations with foreign powers on commercial matters, was necessary for the success of the reciprocity agreement, as the United States would not have been interested in widely generalized benefits on the Canadian market. A resolution passed the conference assuring the Dominions of complete autonomy in matters of commercial policy and in dealings with foreign governments in the commercial sphere.[69]

British opinion on the whole, however, was opposed to reciprocity. Chamberlain's "Tariff Commission" publicized the rather minor reductions in the margin of preference that would be involved for British goods in Canada.[70] Nearly $15,000,000 of British goods would be taxed more heavily on entering the United States than would Canadian goods of a similar kind, despite the fact that Britain maintained free entry for American goods. This was not so much an argument against reciprocity as an attempt to impress the British with the magnitude of their losses in bargaining power and commercial advantage under free trade. In fact the Chamberlain forces cherished the reciprocity question as a political weapon in the tariff debates in Britain.

[67] Ellis, *Reciprocity,* p. 166.

[68] Canada voluntarily adhered to the British treaty with Austria in 1876 and gave Italy most-favoured-nation treatment by order-in-council in 1910.

[69] See Skelton, *Canada and the Most Favoured Nation Treaties,* pp. 4 and 13. Canada was bound to give some twelve countries the same concessions she might make to the United States under her own or British treaties in 1911.

[70] John A. Hobson stated in 1906 that the only British industries to benefit materially from the preference were textiles, leather, glass, carpets, confectionery, cordage, and earthenware. He tended to minimize the general advantages of the system. John A. Hobson, *Canada Today* (London: Fisher Unwin, 1906), p. 132.

They held the proposed agreement up to the British public as proof that Empire unity was endangered and urged that the threat be removed by a British tariff that would serve as a basis for colonial preference and that would turn the Dominions away from commercial arrangements with foreign governments. The defeat of reciprocity in 1911 was a telling blow to the British "tariff reformers" in the elections of 1912.[71]

Other British reactions were even less exalted in spirit. Britishers feared that the agreement might increase the price and reduce the supply of Canadian foodstuffs and raw materials available in Britain, as Canada would have a satisfactory alternative market in the United States. Cheese exports in particular, from Canada to Britain, were expected to suffer when Canadian butter found a ready market in the United States.

On his return to Canada Laurier was faced with a well organized opposition in Parliament whose filibustering tactics finally made the government take the issue to the country. An election was called for September 21, 1911. As far as the principal issue of the campaign was concerned the arguments used in political speeches had already been fully set forth in the parliamentary debates. It was the opposition's policy to keep in the background the economic advantages to be gained from a larger agricultural market, and the success of their strategy is shown by the fact that the economic aspects of the question ultimately became a secondary issue. Railroad executives such as Sir William Van Horne, the Canadian Manufacturers' Association led by T. A. Russel, and the comments of imperialist writers such as Stephen Leacock, and even Rudyard Kipling, played a part in the Conservative victory. Incautious statements on the annexation question by Taft and other American leaders were seized upon and distorted by opposition spokesmen. Clifford Sifton, who had broken with Laurier on the separate schools question in Alberta and Saskatchewan, together with a group of protectionist-imperialist Liberals from Toronto, gave valuable assistance to the Conservative cause.

[71] Marvin E. Lowe, *The British Tariff Movement* (American Council on Public Affairs, 1942), p. 21.

Alleged scandals in the government party—such as the handling by Fielding of the Farmers Bank failure and alleged fraudulent disposal of western lands by Frank Oliver, the minister of interior—played some part in the debates. In Quebec Laurier's naval building policy lost him support from the Nationalist group led by Henri Bourassa.

When the returns were in, the Conservatives had 133 seats to the Liberals 86, practically a reversal of the pre-election position. Reciprocity proved again a lost cause, though it was to be revived twenty-five years later and adopted in both countries without the fanfare of congressional debate or general election. The return of the Democratic party to power in the United States in 1912 marked the advent of another cycle of more liberal tariff policy in that country. By the Underwood tariff of 1913 Canada gained most of the advantages which she forfeited by the defeat of reciprocity. Wood pulp, for which free entry to the United States had been provided in the reciprocity agreement, was left on the free list after 1911. Provision was made by the United States for reciprocal free trade with Canada in wheat and wheat flour; otherwise the duty on wheat was to be 10 cents a bushel. Swine, cattle, sheep, and other live domestic animals entered the United States free of duty. The Canadian government refused to accept the overture as regards wheat. The trade in animal products, however, increased with great rapidity after the Underwood tariff was passed. The United States maintained a moderate tariff policy towards Canada until the emergency post-war bill of 1919 and the Fordney-McCumber tariff of 1920 restored the level of protection existing before 1913.

The many significant innovations in commercial policy introduced by the Liberals during their long tenure of office did not change the fundamental protectionism embodied in federal policy since 1879. The anti-dumping legislation of 1904, the selective protection to farm machinery and other industries implied by the "holes" in the tariff of 1907, the non-tariff protection contained in federal railway subsidies that encouraged the use of Canadian-made steel products, and the continuance of direct subsidies to

the steel and petroleum industries are illustrative of this fact. The British preference, particularly after its modifications in 1904 and 1907, did not change the trend of United States trade gains in Canada or seriously reduce the average level of duties on protected goods. In the latter part of the period resurgence of opposition to the principles of the National policy, led by Western opinion, was not strong enough to carry reciprocity against the opposition of vested interests in manufacturing and railways, and in the face of imperialist sentiment in Canada and Britain. On the other hand, Chamberlain's great plan for closer imperial ties based on Empire tariff unity made even less headway. British preferences and the intermediate tariff notwithstanding, Canadian commercial policy during this period of economic expansion was fundamentally nationalistic.

## CHAPTER X

# TARIFF AND INDUSTRIAL EXPANSION

THE PERIOD from the acquisition of power by the Liberal government in 1896 to the end of 1913 is properly regarded as Canada's era of greatest promise and fulfilment. Wheat from the new West provided the basis for a rapidly expanding export trade and together with minerals from British Columbia and northern Ontario and new manufacturing expansion in the central provinces placed the imprint of economic merit on capital expenditures, both old and new. Net long-term capital movements into Canada rose from 30 million dollars a year in 1900 to an unprecedented 542 millions in 1913;[1] the index of home investment rose from 100 in 1900 to 509 in 1913.[2] During this period while the wholesale price index was rising from 47.9 in 1896 (1926 = 100) to 64 in 1913, the terms of trade were turning in Canada's favour. The huge capital imports of the Dominion, which have provided a classic example of the phenomenon of international adjustment, were implemented by a large passive balance on merchandise account, in part by gold imports and the acquisition of unused balances in foreign, mainly American, banks. All the important indexes of national expansion—area of new land settled, immigrant arrivals, lines of railway mileage in operation, building construction—seemed to give warrant to Laurier's remark that "The Twentieth Century belongs to Canada." Expansion was not uniform however. The prairie provinces, both in relative and absolute terms, increased in population most rapidly, with British Columbia, Ontario, and Quebec enjoying sizeable if less startling gains.[3] The

[1] Mackintosh, "Economic Background of Dominion-Provincial Relations," p. 25, table 3.

[2] A. Cairncross, "Die Kapitaleinfuhr in Kanada, 1900–1913," *Welt Archiv,* November, 1937, quoted in Mackintosh, "Economic Background of Dominion-Provincial Relations," p. 476.

[3] Mackintosh, "Economic Background of Dominion-Provincial Relations," p. 24.

Maritimes, on the other hand, were scarcely able to hold their own. Their relative position in the Dominion substantially declined.

A few general points should be made regarding the place of the tariff in this expansion. In the first place, the imports which flowed in, chiefly from Britain and the United States, and which were financed both by increased exports and by foreign borrowings, brought substantial revenues into the treasury from customs duties. The duties increased from about 20 millions in 1896 to 105 millions in 1913 while total federal taxes, including duties, rose from 29 to 127 millions in the same period. This influx of imports was not ruled entirely by forces of supply and demand in Canada and abroad. Qualitative controls were to a large extent set by a carefully designed tariff. This tariff, avowedly protective in intent, was calculated to assure those Canadian industries deemed capable of expansion the necessary raw materials and partially manufactured goods from abroad at prices unenhanced by duties. Thus "holes" were left in the tariff through which such goods might pass, especially after 1907. These essential materials for Canadian industry plus substantial amounts of capital equipment for railway construction made up the bulk of imports.

Canadian imports came almost entirely from Britain and the United States. The value of imports for home consumption increased over six times between 1896 and 1913, or from 105 millions to 671 millions. At the beginning of the period the United States was supplying about 50 per cent, and Britain a little over 30 per cent, of these goods. By 1913 the American share had risen to 65 per cent and the British had fallen to just over 20 per cent, and this despite the preferential and intermediate tariffs.[4] The rest of the world, along with Britain, had lost rather than gained relatively in the Canadian market. Furthermore the relative importance of dutiable goods had increased, as compared with free goods both from the United States and Great Britain. Free goods constituted 44 per cent of American shipments to

[4] In the fiscal year ending March 31, 1914, general tariff imports were $298,000,000; preference imports $95,000,000; and intermediate tariff imports $17,000,000.

Canada in 1896 and 37 per cent in 1913. Comparable figures for Britain were 24 per cent in 1896 and 22 per cent for 1913.

Perhaps the most remarkable fact about Canadian imports over this period was the remarkable steadiness of their expansion. In no fiscal year were the imports under the preceding year, with the exception of 1909. Canadian exports, as is characteristic of a country in the capital-borrowing stage of development, fell considerably behind her imports, although undergoing a more than threefold expansion. The nation started this period with an active balance of trade. This position was maintained until the fiscal year 1899 when a passive balance of about 12 million dollars was incurred. The negative balance did not become really substantial until 1904, however, when imports exceeded exports by 46 millions, which in itself is small when compared with the negative balance of 315 millions in 1913.

The relative positions of the United States and Great Britain were reversed with respect to export, as compared with import, trade. In 1896 Britain took 57 per cent of Canadian exports while the United States absorbed 35 per cent, leaving only 8 per cent for the rest of the world. By 1913, although the United States had lost but little ground as an export market, Britain was taking slightly under 50 per cent of the total. Between 1896 and 1913 the United States had increased her purchases of Canadian goods between three and four times and Britain by from two to three times. Of course the United States was still in an expansive stage and was increasing her imports. The Dingley tariff of 1897 appears to have had only a temporary influence on imports from north of the border.

A question solely of academic concern, but indirectly related to the tariff, arises when we contemplate this inflow of capital implemented by a passive balance of trade. What would the effect of a sudden curtailment of this stream have been on the economic life of the nation, uncushioned by war and a steeply rising price level for staple exports abroad? Would the Dominion have been able to service the relatively large debt she had acquired on capital account? Would the drastic deflation, necessary to adjust the

merchandise balance from the passive to the active, have been destructive of internal equilibrium, and would the depression, already in evidence by the outbreak of the war, have been greatly intensified? Perhaps some systematic scaling-down of foreign indebtedness might even have been contemplated in a long depression, as was done in Australia after 1929.

Industrial expansion in all phases of economic life was an accompaniment of capital imports. Despite the great agricultural expansion associated with the intensive settlement of the western provinces, manufacturing kept pace, and manufactures produced for the domestic market increased even more rapidly. The cityward flow of population continued as the urban portion increased from 32 to 45 per cent of the total population.[5] From 1900 to 1910 manufacturing enjoyed the most rapid expansion of any peace-time period in Canadian history. The net value of production of manufacturing industries increased from less than $215,000,000 to over $564,000,000, more than two and a half times, and the gross value of manufacturing production was well past the billion mark by 1910. Capital invested in manufacturing industries increased nearly three times, or from about $447,000,000 too $1,248,000,000. Employees increased by about 175,000 much less in proportion than value of production or capital employed. The proportionate increase in wage and salary payments was much in excess of the proportionate increase in employees.

The expansion of manufacturing was fairly general, with the exception of the woolen industry and certain handicraft industries formerly protected by the isolation of their local markets but now subject to British and American competition without the benefit of high tariff protection. Industries such as iron and steel, which enjoyed an expanding domestic market in railway building and capital goods construction as well as tariff protection and direct subsidy, expanded two or threefold in the single decade from 1900 to 1910. With expansion went concentration of industry in central Canada. The Maritime division of the iron and

[5] *Report on Dominion-Provincial Relations,* I, 73.

steel industry was the only important beneficiary of national policies to undergo much expansion in the eastern provinces, so great was the trend towards concentration in the central provinces and the movement of industry westward.[6]

It is not to be construed that industries dependent upon the basic natural resources of the Dominion fell behind as the more complex consumer goods industries developed under the impetus of an expanding urban market and the tariff. Flour and grist mill products increased in value nearly fivefold from 1900 to 1910. The iron and steel industry itself was based on new ore discoveries in northern Ontario and Newfoundland, and the rise of the lumber, mining, and pulp and paper industries was the principal factor in the expansion of British Columbia and northern Ontario and Quebec. "Between 1896 and 1913, the exports of nickel and silver rose from $2 million to $26 million, and those of pulp and paper increased from less than $1 million to $18 million."[7]

In the manufacturing field the merger movement swept Canada in the first decade of the twentieth century. Larger primary and secondary producers, such as the steel companies, endeavoured to integrate vertically with complementary concerns in order to extend their control over sources of raw material. Price agreements and marketing pools imposed limitations on competition. Pressure groups represented in the Canadian Manufacturers' Association were pitted against the Granger movement in the West, and both gained in strength and political effectiveness. The struggle was intensified during the mild depression of 1907–1908.

[6] In 1890, 84 per cent of textile production, 88 per cent of boots and shoes, 81 per cent of furniture, and 92 per cent of tobacco were manufactured in Ontario and Quebec. By 1910 these percentages had increased to 90 for textiles, 94 for boots and shoes, 97 for furniture, and 95 for tobacco. Iron and its products was more diversified, however, by 1910 with only 81 per cent in Ontario and Quebec as compared with 85 per cent in 1890. Rubber products, liquors, glass products, and chemicals and chemical products also showed greater diversification. For all manufactures, 81 per cent were produced in Ontario and Quebec in 1890 and 80 per cent in 1910. This is rather remarkable in view of the entry of two new provinces into the Dominion and the rapid expansion in British Columbia and Manitoba. *Report on Dominion-Provincial Relations,* I, p. 74, table 16.

[7] *Report on Dominion-Provincial Relations,* I, p. 77.

Active controversy, silent for the most part for a decade or so, arose again over the tariff issue. Charges of combination and monopoly bred behind tariff walls were being made by agriculture and denied by representatives of industry.

Many of the combinations that occurred between 1900 and 1910 were accompanied by extensive write-ups of company capitalization, perhaps in some instances to excessive levels. It was charged that such inflation of securities was only justified by expectations of monopoly profit based on a sheltered market position created by the tariff. In the years 1904 to 1911 inclusive, some forty-one industrial combinations were formed in Canada, absorbing one hundred and ninety-six separate companies. The aggregate capitalization of the firms was $125 million before the mergers, while the capitalization of the combinations amounted to some $335 millions.[8] The number of firms in Canada decreased slightly between 1900 and 1910, but the average capital of firms of five hands and over increased from $32,000 in 1900 to $65,000 in 1910. In farm machinery average capitalization increased from $159,000 to $587,000, in railway rolling stock, from $353,000 to $1,490,000, with correspondingly significant increases in paper industries, electrical goods, and iron and steel manufactures in general. Protected and unprotected industries apparently expanded with similar rapidity.

One development of the period that may be traced to the tariff, among other factors, was the establishment of a substantial number of branch plants of American firms. Not more than one to three foreign or British firms a year had entered Canada during the eighties and nineties, despite the National Policy. In 1903 five new branch factories were established, eleven in 1907, and fifteen and eighteen respectively in 1910 and 1911.[9] The rapidly expanding domestic market, restrictions on the export of pulp wood, and the prospect of preferences in Britain were influences supplementary to the tariff.

[8] *Monetary Times*, Toronto, January 6, 1912.

[9] *British and Foreign Branch Factories*, Report prepared by the Canadian government in preparation for the Imperial Conference, Ottawa, 1932.

The iron and steel, farm machinery, and textile industries will now be examined and their expansion observed during this dynamic period in Canadian economic life. Between 1896 and 1913 the Canadian consumption of pig iron increased ten times, and the iron and steel industry took first place among the manufactures of the Dominion. The Liberals, with the dual purpose of fulfilling their low tariff election pledges and maintaining existing industries, extended the bounty system which had been introduced by their predecessors in 1883 as a "temporary expedient." At the same time the National Policy level of specific duties on pig iron, ingots, slabs, blooms, and billets were reduced.[10] In 1897 pig iron produced from native ore was given a subsidy of $3.00 a ton, double the original bounty of 1883. The subsidy plus the tariff now amounted to $5.50 a ton on the primary product of the industry. Pig iron made from imported ore was awarded $2.00 a ton to encourage the Maritime industry to develop the ore bodies of Newfoundland. In 1897 the bounty on puddled bars, steel billets, and ingots was raised from $2.00 to $3.00 a ton.[11] In 1903 bounties of $6.00 per ton were allotted rolled wire rod producers.

Between their inception in 1883 and their abolition in 1912 (only nominal amounts were paid after 1910) a total of over $17 million in bounties were paid to the industry. Pig iron producers received over $7.7 millions, steel producers $6.7 millions, and fabricators of steel $2.9 millions.[12] Only the crude petroleum industry was treated with comparable generosity during the period.[13]

The subsidy system, unlike the tariff, was never accepted as a permanent feature of national policy. In 1899 a scheme was drawn up in accordance with which the bounties were to disappear by certain percentages per annum over the five-year period from

[10] Pig iron was reduced from $4.00 per ton to $2.50, and the others from $5.00 to $2.00.

[11] 60–61 Vict. c. 6.

[12] Donald, *Canadian Iron and Steel Industry,* p. 335.

[13] Between 1904 and 1908 crude petroleum received over $13,000,000 in bounties. Manila fibre manufacture, silver mining, and lead production also received small bounties. *Sessional Papers,* vol. XLII (1907–1908), No. 18, Paper No. 93.

1902 to 1907. This plan however was altered from time to time so as to delay abolition of the system until 1912.[14] The subsidized products of the industry included pig iron, steel made of ingredients 50 per cent of which was pig iron of domestic production, rolled wire rods, and iron and steel smelted by the electric process.[15]

Stimulated by this subsidy,[16] and finding an assured backlog of demand in the government-supported railway building program, domestic producers increased their share of the market from 67 to 80 per cent between 1896 and 1913.[17] The Dominion's annual production of pig iron grew from 86,000 tons in 1900 to 715,000 tons in 1910, and the growth was fairly steady over the decade. Ontario and Nova Scotia shared this production in 1910. In the latter's blast furnaces 313,000 tons were produced, and 399,000 tons were produced in the Great Lakes area. Quebec had already dropped out of the picture because of the exhaustion of its shallow ore bodies. The contribution of the other provinces to the total output was insignificant. The steadiness of the growth of pig iron production in Canada over this decade belies the existence of a pronounced cyclical swing in economic activity within the country at this time. The production of steel ingots and direct steel castings, another subsidized division of the industry, increased from 23,500 tons in 1900, a figure which had been fairly representative

[14] In 1910, bounties on puddled bars and steel made from foreign ores were discontinued.

[15] Donald, *Canadian Iron and Steel Industry*, p. 149.

[16] Local assistance also played a part in the localization of many firms. In 1900 for example the Canada Iron Furnace Company received a bonus of $50,000 and large tax exemptions for establishing a plant in Midland, Ontario. In 1902 North Sydney attracted the Nova Scotia Steel Company with a bonus of $50,000 and exemption from local taxation for twenty years. Port Arthur and Collingwood, Ontario, and St. John and Sydney in the Maritimes gave substantial subsidies to other firms. Provincial aid was also given in Ontario and Nova Scotia. In 1903 the Ontario government assisted the Lake Superior Corporation by guaranteeing an accrued wages bill, and in 1904 an indirect subsidy was given in the form of a bonus to the Grand Trunk Railway providing it used Ontario-made rails. Nova Scotia gave right of eminent domain to the Dominion Iron and Steel Corporation. Donald, *Canadian Iron and Steel Industry*, pp. 171–172.

[17] Over 80 per cent of the imported iron and steel came from the United States.

of ingot and casting production since 1894, to 734,000 tons in 1910.

By the end of the period the Canadian iron and steel industry was fairly well established on its present basis. The primary industry, that is, blast furnaces and the early stages of refining, had been localized in the Maritime provinces, Cape Breton Island, and in the Algoma region in Ontario. Points on the Great Lakes system, such as Hamilton and Montreal, had an obvious economic advantage in steel production, and the leading secondary iron and steel users in the country were located there. Financial troubles, mismanagement, absentee ownership, and over-specialized production dogged the early days of the primary industry despite its expansion record noted above.

A clash of interests is inevitable in a country of Canada's specialization and regionalism. The controversy over the implement tariff, which came to a head about 1910, epitomized this struggle. The 35 and 30 per cent rates on farm machinery reached by the National Policy tariff at its apogee in 1887 had been scaled down to the 30, 25, and 20 per cent levels in 1894 in deference to agrarian discontent. In 1895 some recovery in farm prices had occurred though short crops in the following year kept farm income low. The preferential rates of 1897–98 were unimportant as far as farm machinery was concerned as the United States furnished practically all Canadian imports. Windmills, threshing machines, and some minor items were reduced from 25 per cent to 20 per cent in 1897.[18]

TABLE 15

Farm Machinery: Imports and Duties, 1895–1915

| Year | Annual Imports (Approx) | Average Annual Rate of Duty |
|---|---|---|
| 1895 | $ 291,000 | 27.4% |
| 1900 | 1,814,000 | 22 4% |
| 1905 | 2,313,000 | 16 9% |
| 1910 | 2,650,000 | 27.8% |
| 1915 | 1,596,000 | 27 4% |

[18] 60–61 Vict., c. 16.

Implement production in Canada offered many attractions to foreign and domestic capital in this period. Sizeable drawbacks of duty paid on imported parts were granted by the government, and specific duties on raw materials were in part replaced by bounties on domestic raw materials.[19] In 1903 International Harvester crossed the border to establish a Canadian branch at Hamilton, on land previously purchased by the Deering Company. The 20 per cent duty of the period was primarily responsible for this step. This is the one outstanding example of branch plant penetration by the American industry into the Canadian field. Today International is the largest producer for the domestic market in the Dominion.[20] Mr. Metcalfe of International Harvester, testifying before the Ways and Means Committee of the United States House of Representatives in 1908, explained the reasons for the move. When asked why the firm established its Canadian branch he replied: "Because of the Canadian duty." When further asked if the company could manufacture more cheaply in Canada than in the United States, he replied that costs were about the same in both countries but that costs were substantially lower in the Dominion than in England or Germany.[21]

Despite severe competition from United States producers in nearly all foreign markets, Canada became a real factor in the export trade after 1898 when exports of farm implements passed the million dollar mark. Exports, however, did not keep pace with domestic production and consumption during the first decade of the twentieth century. Output increased from $9,500,000 in 1901 to $12,800,000 in 1906 and to $20,723,000 in 1910. Exports increased only from about $1,743,000 to $4,319,000 over the same ten-year period. Australia, France, Germany, and South America were the principal markets in addition to Great Britain.

By far the most important unit in the export business was

[19] The implement industry received 52% of all drawbacks paid by the customs department in the fiscal year 1899–1900. See *Sessional Papers*, Auditor General's Reports, 1900.

[20] From 1926 to 1933 this company did 40% of total domestic implement business; it produced 50% of the value of its Canadian sales in Canada.

[21] See *Debates, House of Commons*, 1924, pp. 1800–1801.

Massey-Harris. The period of cut-throat competition followed by amalgamation and combination, which characterized the United States' division of the industry during the 1890's, was paralleled by a movement in the same direction on a less spectacular scale in Canada. In 1891 the Massey-Harris organization was formed by the amalgamation of the Massey and Harris firms, and in 1896, after having absorbed several smaller units,[22] Massey Harris was incorporated as a private company. Economy of centralized management, financing, and marketing were the primary motives of this and other combinations in which many of the component concerns retained autonomy as regards factory operation. Approximately a hundred plants disappeared from production or were absorbed between 1891 and 1901. In Ontario the combination movement was especially strong, the number of firms declining from 130 in 1891 to 66 in 1901, while in Quebec the decline was from 69 to 41 in the same period.[23]

As the combination movement grew and the farmers became more price-conscious with better organization, the charge of export dumping was frequently heard.[24] The accusation was made that implement companies were selling their products in Great Britain and elsewhere from 10 to 30 per cent lower than similar machinery was being sold for at home. Through the official organ of the Canadian Manufacturers' Association, *Industrial Canada,* this "dumping" charge was answered by calling attention to the difference in kind and quality between export machinery and that placed on the domestic market. Binders of almost double the size used in England were demanded on the prairies, and generally higher quality tillage equipment was also required in domestic agriculture. This quality differential is a very real one and makes proof of the "dumping" charge nearly impossible. The cheapness of ocean freight rates from eastern Canada to England, as compared with the long rail haul to western Canada, amounting on a

[22] In addition to the Massey-Harris concerns, the Patterson and Wisser combination of Brantford and Woodstock, the Unity Plow, and the Bain Wagon Works became part of the organization.

[23] *Census of Canada,* 1900–1901.

[24] Six powerful farm organizations came into existence between 1900 and 1906.

binder to $10.00 less from Ontario to London than from Ontario to Saskatoon, would also have justified lower prices abroad as non-discriminatory business policy. The drawbacks paid on export shipments were an additional excuse for a price differential.

The following retail price comparisons, while not accurate in all instances, as they do not apply to strictly comparable machines, serve to show that the Canadian farmer was faced with higher equipment costs than his United States contemporary. A comparison of prices between comparable implements in Manitoba and North Dakota revealed that the Canadian farmer paid higher prices.[25]

TABLE 16

COMPARATIVE IMPLEMENT PRICES

| Article | Canadian Price | U. S. Price | Percentage by which Canadian Exceeded U. S. Price |
|---|---|---|---|
| 14 in. steel-beam walking plough.... | $ 25 | $ 22 | 12 0% |
| 16 in. sulky plough....... ....... | 60 | 52 | 15.4% |
| 14 in. gang plough with extra shares. | 88 | 80 | 10 0% |
| 8 ft. 6 in. disc harrow . ........... | 45 | 38 | 18 4% |
| 10 ft. 20 single-dish drill ......... | 140 | 125 | 12.0% |
| Farm wagon... . ............... | 105 | 95 | 10.5% |

These price differentials rankled in the breasts of the farm organizations which sent strong deputations to the Fielding Tariff Commission appointed in anticipation of the general tariff revision of 1906–1907. The Liberals were able to effect a compromise counteracting a tariff reduction in implements by extending the drawback system to include the domestic market. The iron and steel producers in turn were reconciled by the continuance of the bounty system. Under the general revision of the customs tariff act in 1907 (6–7 Edw. VII, c. 11), mowing machines, harvesters, reapers, and other harvesting equipment, cultivators, and tillage implements were reduced in duty 2½ per cent ad valorem under the general tariff or to 17½ per cent. There was no separate inter-

[25] *Senate Exec. Docs.*, No. 80, 62d Cong., 1st Sess., vol. XV, pt. 3c, p. 4327.

mediate rate, and the ineffective British preference rate was 12½ per cent. Traction and portable engines for farms, threshing machines, and equipment were dutiable at 15, 17½, and 20 per cent under the three-ply system. Hay-loaders, potato diggers, fodder and feed cutters, etc., and implements n.o.p. were rated at 15, 22½, and 25 per cent, and small farm tools at 15, 20, and 22½ per cent. This tariff may be designated as the 17½ per cent tariff as the 1894 measure was a 20 per cent tariff, the National Policy a 35 per cent tariff, the revenue tariff a 17½ per cent tariff, and prior to that the immediate post-Confederation tariff a 15 per cent, and that of Cayley and Galt a 20 per cent rate. These rates were those that applied to the main list of harvesting and tillage equipment. In 1907 the 2½ per cent reduction was systematically carried throughout the entire implement schedule.

The 1907 revision extended the drawback or rebate system to implements consumed in Canada. Ninety-nine per cent of the duty paid on imported rolled iron, rolled steel, and pig iron was refunded when those materials were used in the production of harvesting equipment for export and for home consumption.[26] The Canadian Manufacturers' Association, speaking for the iron and steel interests principally, resented this nullification of part of the protective force of the tariff on materials produced in Canada. To encourage the manufacture of ploughs in Canada, mould boards, plough plates, or landsides were made free under the three divisions of the tariff schedule. Although dissatisfied with the 1907 revisions, and determined to press on towards free trade in farm machinery, the Grange, the Grain Growers' Association, and other militant protagonists of the farm viewpoint, concentrated on the battle with railway monopoly and the private grain trade in 1908 and 1909. Only when reciprocity was in the air in 1910 did they again direct all their fire at the tariff.

The progress made by the implement industry during the three decades of protection is epitomized in Table 17. It will be observed that the last decade of this thirty-year period experienced the greatest expansion. These decennial percentages of growth

[26] Total drawbacks and rebates of $552,304 were paid in the first year.

but it soon appeared that the cotton branch of the industry would be able to hold its own. The net value of cotton production increased from $4,244,000 in 1890 to $6,200,000 in 1900 and to $10,605,000 in 1910. Imports of raw cotton increased about 120 per cent from 1890 to 1910. The industry's development was largely owing to the expansion of the home market, coupled with generous tariff protection. The United Kingdom's exports to Canada also profited from the tariff. Total imports of grey goods increased five and a half times from 1900 to 1913 and bleached materials by about the same proportion.

Notice has previously been taken of the combination movement that was a strong force in the cotton industry between 1889 and 1892. This had resulted in the concentration of control of the industry in two large combinations and three or four independents. Some new blood came into the industry around 1900. Competition was intensified and a move got under way to regularize competition by effecting further consolidations. In 1905 a syndicate organized the Dominion Textile Company which took over the properties of five companies, including Dominion Cotton Mills which had been the result of the mergers of fifteen years before. The new company controlled about one half the capital equipment of the cotton industry. Between 1900 and 1910 several new companies were organized to produce specialty goods at Hamilton, Montreal, Three Rivers, and Shawinigan Falls. The industry became more and more concentrated in Quebec, the province of cheap power and cheap labour. Sixty-six per cent of production was in Quebec in 1910, with Ontario having 18 per cent, and the Maritimes the remainder. In 1910 further consolidation occurred with the emergence of Canadian Cottons Limited.

The Canadian woolen industry fell on evil days during the years of greatest advancement in most of the Canadian economy. Made up of many small plants providing a few staple lines of goods to a limited local market, it was ill-adapted to meet the demand of a wider and more exacting market. "The British Manufacturers, serving a large market, could more efficiently meet the demands for variety than could the small Canadian

mills."[27] Output declined from 14 to 7.6 million yards in the ten years following 1899, and only 87 mills were left in 1910 out of the 377 in operation in 1890. Employees, however, declined only from 6,956 to 4,263 over the same period. Neither a return to higher duties after the 23 per cent rate of the British preference, nor combination could save this industry from a severe adjustment period. The Canadian Woolen Mills, formed in 1900 to take over five plants, failed in 1904. Hosiery and knit goods, on the other hand, protected at about the same rate as woolens, expanded production 250 per cent between 1900 and 1910.

During these seventeen years of expansion and consolidation when large scale manufacturing enterprise supplanted the smaller and more widely scattered establishments of the early National Policy period, the tariff became a more selective and effective device for protection than ever before. There is evidence that, with combination among erstwhile competitive firms, tariff protection was reflected in wider price differentials between the Canadian and American prices than had been true during the 1880's, with resulting opposition from farmer and consumer groups. The demand by industry for support of domestic prices and market position against dumping forays from the United States, rather than the "infant industry argument," characterized the period. On the positive side new industries, and particularly branch plants of American firms, were attracted to Canada as the growth of the country made the protected domestic market a profitable one for large and efficient producers.

[27] *Report of Royal Commission on the Textile Industry*, p. 43.

## CHAPTER XI

# WAR AND POST WAR TARIFFS

UNTIL THE reciprocity issue lent the colour of a spirited flag-waving election campaign, the tariff as the traditional centre of partisan dispute had lost ground in Canadian politics. The voices of discontent from Western Canada assured revival for the issue at every election, however, as long as protection should endure; but, before the 1910–11 debate the leaders of both major parties were in substantial agreement on what constituted a "reasonable" level of protection and on the merits of preserving it. It was to be expected, therefore, that the government of Robert Laird Borden in 1912 would not be antagonistic to the general level of tariffs which the country had known since 1897, and specifically to the schedules of 1907. Nor was it to be expected that the Conservatives would repudiate the British preferential tariff after the emphasis on Empire unity had done much to defeat reciprocity and bring them to power. In any case even the erstwhile opponents of the preference, the manufacturing community, found little fault with the British rates after the revision of 1907 had broken the rigid scale of one-third off the general tariff.

After two years of office, Mr. (later Sir) Thomas White, minister of finance, summarized the policy of his party in the budget message of 1914: "The evils of a high protective tariff are too well known to make it necessary that I should discuss them here. The tariff of Canada has not been a high tariff but one affording a moderate degree of protection only." [1] Stability, diversification of industry, fair wages, and a home market for farmers all had resulted from "reasonable" tariffs, said the minister.

Indeed a policy of inaction on the tariff front did not serve the Dominion badly after 1911. The American Underwood tariff of 1913, which reduced the level of protection in the United States to

[1] *Debates,* 1914, III, 2452.

about the Canadian level, had given the Dominion most of the export advantages offered by the reciprocity agreement.[2] Wood pulp had been left on the free list by the United States after the failure of Canada to accept reciprocity. In 1913 the United States offered free entry for Canadian wheat on condition that Canada remove the duty on American wheat and flour. The Canadian government refused to take action in 1914 out of solicitude for the east-west railway system, but the American duty on Canadian wheat was removed in 1917.

The principal episodes in immediate pre-war tariff history were the abortive attempts to set up a permanent tariff commission "to take the tariff out of politics," the final lapsing of the iron and steel subsidies in 1912, the adjustment of the iron and steel duties, and the lowering of farm machinery rates in 1914. Though the tariff commission plan, patterned to some extent after the United States system of 1912, was defeated in the Senate, owing to the Liberal control of that House, a "scientific" tariff had much appeal at the time in both countries. The iron and steel bounties which had been unimportant since 1910 were allowed to lapse in 1912 since White held that direct subsidies should not be given to a mature industry.[3] Perhaps to cushion the shock to the steel industry, the drawbacks on exported products made from imported pig iron were liberalized, and the duty on certain items was increased.[4] In 1914 the intermediate tariff on pig iron was raised from $2.25 to $2.50 per ton, making it equivalent to the general rate. Wire rods were removed from the free list and made dutiable at $2.25 per ton, British preference, and $3.50, intermediate and general tariffs. The drawback was, however, extended to the duty paid on wire rods imported for the manufacture of galvanized wire

[2] The Underwood bill reduced the level of the United States tariff on dutiable imports to about 26 per cent ad valorem. The average Canadian ad valorem tariff on all imports from 1911 to 1915 was 19.5 per cent on British goods and 15.0 per cent on American. Great Britain, *Parliamentary Papers*, 1917–18, vol. VIII, Cd. 8457, p. 7.

[3] *Debates*, 1914, III, 2454.

[4] By 4 & 5 Geo. V, c. 25, drawbacks paid a particular firm were based on the proportion of pig iron (imported or domestic) used for exports.

and steel wire of the type used for fencing. The intermediate duty on rolled iron and steel angles and beams was also raised from \$2.75 a ton to the general rate of \$3.00 for items weighing over 120 pounds per yard (4 & 5 Geo. V, c. 26). The duty on harvesters, reapers, and mowers was lowered from 17½ to 12½ per cent.

When the war broke out the tariff was the principal fiscal instrument immediately available and was called upon at once to meet unprecedented demands for revenue. In August 1914 the rates on such reliable revenue producers as coffee, tea, cocoa, sugar, and tobacco were increased (5 Geo. V, c. 5). In April 1915 a surtax of 5 per cent under the British preference, and 7½ per cent under the intermediate and general tariffs, was placed on imports. Materials used to manufacture harvesting equipment, binder twine, anthracite, and munitions were exempt (5 Geo. V, 2d Sess., c. 3). Crude petroleum imported by refiners was added to the exempt list in April 1916 [5] (6 & 7 Geo. V, c. 7).

Despite its revenue objective the horizontal increase in the tariff was attacked as a protectionist device, especially by the farm press and agricultural organizations.[6] It undoubtedly contributed to the resentment of western representatives in Parliament and to the growth in strength of the Canadian Council of Agriculture's political offspring, the Progressive Party, in federal politics and of farmer political organizations in the provinces. As a public issue, it was closely linked with charges of monopoly made against Canadian manufacturers of farm machinery, fertilizers, cement, and textiles on which a large percentage of farm income was spent.

The defense was aided when the Board of Inquiry into the Cost of Living made its report in February 1916, at a time of vigorous debate on war taxes. This board consisted of a group of government officials appointed in December 1913 to report on the causes of rising prices and living costs over the previous fifteen years.

[5] Over \$180,000,000 was collected from this surtax between 1915 and 1920. See *Debates,* 1919, III, 3150, and *ibid.,* 1920, III, 2490.

[6] "The Canadian milling corporations are earning far higher returns than the average Canadian industry and no small part of their excessive profits comes from the tariff—sheltered home market" (*Globe,* Toronto, Nov. 8, 1916).

The main report of the board does not merit serious consideration as economic analysis. Causes other than the tariff were held responsible for the rising cost of living since unprotected commodities, mainly raw materials, were shown to have increased in price as much or more than protected goods.[7] Since improved technology in industry and the great advance in world prices that characterized the period were primarily responsible for this result, it proved nothing about the influence of the tariff. The board's report was widely quoted by protectionist newspapers, however, and obtained some support for the government's tax program.

The war was significant in Canadian tariff history insofar as it laid the foundations for drastic tariff changes and a new resurgence of economic nationalism in the world as a whole. Canada's tariff, however, was relatively stable from the introduction of the revenue duties in 1915 until their removal in 1919 and 1920. In 1918 special revenue duties were placed on tea, coffee, tobacco, and liquor (8–9 Geo. V, c. 17). Instead of raising the tariff further to meet revenue needs, the government introduced a host of new direct and indirect taxes.

Developments of the war period that must be stressed were the strengthening of imperial unity and the steps taken before and after the Armistice to provide an economic basis for the new Empire solidarity born of military necessity. In Canada the war revenue duties widened the margin of preference as a 2½ per cent differential in favour of Britain was added to existing preferences, while the 1916–17 food and raw material shortages in England brought home the apparent need for self-sufficiency on an imperial if not a national basis. The imperial war conference held in London in 1917 recommended a system of Empire tariff preferences.[8] Though nothing was done for the duration, in 1919 (9 & 10 Geo. V, c. 32, Imp.) Canada received a preference of one-third off the

[7] Board of Inquiry into Cost of Living, *Report* (2 vols., Ottawa: King's Printer, 1915), I, 73.

[8] Great Britain, *Parliamentary Papers*, 1917–1918, vol. XXIII, Cd. 8566, p. 114.

McKenna duties of 1915 (5 & 6 Geo. V, c. 89 Imp.). Since these duties applied to motor cars, phonographs, and other highly manufactured goods in which Canada's competitive position was weak, the preference was not valuable. In 1921 the preference was also extended to commodities dutiable under the safeguarding of industries act of that year (11 & 12 Geo. V, c. 47, Imp.).

In 1919 Canada temporarily increased the preference by removing the surtax of 5 per cent on British goods while the 7½ per cent levy on general imports was retained until 1920—though foodstuffs, linen, cotton and wool clothing, boots and shoes, fur articles, leather goods, farm machinery, mining machinery, petroleum oils, and bituminous coal were relieved of the tax in all schedules in 1919. Wheat, wheat flour, potatoes, crude petroleum, tin, copper, nickel in blocks, rolled iron and steel hoops, and iron ore were placed on the free list in 1919 (9 & 10 Geo. V, c. 47). The remaining war duties were removed in 1920 (10 & 11 Geo. V, c. 44).

The war surtax on imports produced over 45 million dollars of revenue in the year ending March 31, 1918, or about 28 per cent of all customs receipts. Even government supporters were willing to remove the tax in 1919, however, as farm organizations made it clear that no support would be forthcoming unless the burden of the tariff on the necessities of life was lightened. According to the opposition press erstwhile supporters of the government from the western provinces were demanding a 50 per cent reduction throughout the list.[9] The president of the Canadian Council of Agriculture declared:

> It must be remembered that for the first time the members from west of the Great Lakes hold the balance of power in the House of Commons. . . . Even Mr. Meighen, the rising hope of Western Conservatism, has been given to understand that there is no political future for him in the West unless he gives what help he can in securing reductions in the present excessive rates of duty.[10]

[9] *Globe* (Toronto), March 1, 1919.
[10] *Globe* (Toronto), March 7, 1919.

In eastern Canada voices were still raised in support of protection as a safeguard against the threatened commercial depression of the immediate post-war period. However, the conservative *Financial Post* attacked the diehard protectionist viewpoint of the Canadian Manufacturers' Association observing: "Coupled with the public-be-damned attitude of the Association has grown up under the tariff a little group of outrageous monopolies." [11]

Canada's subsequent record in post-war economic relations, contrasted with that of much of the world and particularly the United States, was not particularly displeasing from the low tariff point of view. In Canada, unlike the United States, the vital markets lay outside the borders, and the political strength of the agrarian group militated against a drastic scaling-up of the tariff in the wake of the emergency and Fordney-McCumber bills in the United States. In compliance with a custom which had grown up in Canada, prior to any general revision of the tariff, the minister of finance, Sir Henry Drayton, and some of his cabinet colleagues toured the country to ascertain public sentiment in 1920, and found opinion throughout the West heartily opposed to upward revision. Early in that year farm prices had begun to soften in the face of a still rigid industrial goods price structure. The United States emergency tariff, with its protection to American agriculture, was felt severely throughout western Canada, especially in the ranching industry. Its effect is reflected in the record of a stock yard at Moose Jaw which, in the three fall months of 1920, had exported 37,056 head of livestock to the United States, as compared with 7500 head during a comparable period after the new tariff became effective.[12] Besides losses in the United States market Canada, like other countries which had fed the insatiable hunger of belligerent Europe for raw materials and food during the war, saw some of her foreign trade slipping away during 1920 and 1921 as European agriculture returned to peacetime production. Currency depreciation abroad, particularly in the United

[11] *Globe* (Toronto), March 24, 1919, quoting *Financial Post*.

[12] John Nelson, *The Canadian Provinces; their Problems and Policies* (Toronto: Musson, 1924), p. 12.

Kingdom, made profitable selling difficult, whereas United States currency rose in respect to the Canadian dollar and thus increased costs to Canadians buying in that market.

Drayton therefore stated the aims of the government in 1920 in the words of the moderate protectionist. He listed industrial stability, encouragement to new and desirable industries, the protection of the consumer, more trade with British countries, and the safeguarding of Canada's interests in the struggle for "commercial and industrial supremacy" as the principal objectives of the administration's tariff program[13]—objectives with which Laurier or Borden would have agreed. Even Fielding on the Liberal side, sensing the rising power of the Progressives, pointed to the "impractical" free trade ideas of the agricultural interests and espoused a system of bounties to relieve the burden of protection on the consumer. He suggested that "pending a wider revision of the tariff, substantial reductions . . . should be made with a view to . . . diminishing the very high cost of living . . . reducing the cost of the instruments of production in the industries based on the natural resources of the Dominion." [14]

Before the general revision contemplated by Drayton was effected, the Liberal-Conservative party was defeated. The tariff which Fielding found when he resumed the finance ministry in 1921 was therefore substantially that of 1911. In the interval, however, the balance of power in the Dominion had moved westward, and the agrarian demand for lower duties was now voiced by the Progressive party in Parliament itself, not by farm organizations from without as in 1910. The King government heeded this rising political force and effected rather broad concessions by the budgets of 1922 and 1923. In 1922, 2½ and 5 per cent reductions were made on farm machinery, bringing those commodities down to 10 and 15 per cent levels under the general tariff. The typical reduction on textiles was 2½ per cent ad valorem (12–13 Geo. V, c. 19), which, however, left textile duties at 25 to 35 per cent levels under the intermediate and general schedules. In 1923

[13] *Debates,* 1920, III, 2491.
[14] *Debates,* 1920, III, 2510.

a reduction of 50 cents per hundred pounds in refined sugar, together with proportionate reduction in raw sugar, was expected to save sugar consumers $2,500,000 (13–14 Geo. V, c. 42). Minor reductions were made in duties on fishing, mining, and forestry equipment in line with the policy of cheaper capital equipment for primary industries. A 40 per cent drawback of duty paid on factory equipment was allowed if imported for use in new industries. In accordance with Fielding's preference for subsidies, copper and hemp bounties of 1½ cents per pound were introduced. The copper subsidy was arranged to diminish progressively to zero after five years and to apply to copper bars and rods manufactured from domestic copper and sold for internal use (13–14 Geo. V, c. 40). The subsidy on hemp began in 1926 and was to diminish to zero after 1933 (13–14 Geo. V, c. 50). In 1928, the year of the scheduled disappearance of the copper subsidy however, a bounty of ½ cent a pound was continued till 1931 (18–19 Geo. V, c. 15).

An interesting item of the 1923 budget proposals was the clause giving the governor-in-council power to increase the duty on raisins and currants from 2/3 cent to 3 cents per pound under the general and intermediate tariffs and to make them free under the British preference. It was hoped that this would encourage Australia and other Empire countries to negotiate trade agreements with Canada. In fact, 1923 was an important year in the history of Empire economic relationships for it was the year of the first imperial conference after the war. This conference presented the first opportunity for implementing the sentiments of solidarity that had grown out of the united war effort. Mackenzie King brought to the conference Canada's contribution to Empire solidarity in the form of an effective addition of 10 per cent to the British preference, by means of a discount of 10 per cent from existing preference rates on duties in excess of 15 per cent for all goods consigned from British countries and entering Canada via Canadian ports (13–14 Geo. V, c. 42).[15]

The government in power in Britain when the conference con-

[15] Wines, spirits, sugar, and tobacco were not entitled to this discount; goods dutiable at less than 15 per cent were also excluded from it.

vened was led by the political heirs of Joseph Chamberlain. Stanley Baldwin was prepared to give concrete expression to economic imperialism, and in this he had Dominion support. His government proposed to introduce preferences on certain colonial produce and to extend existing preferences on dried fruits, currants, sugar, and tobacco. Later, on Dominion insistence, apples, fruit juices, and canned salmon were added to the preferential list.[16] The conference resolved that:

> This Imperial Conference holding that, especially in present circumstances, all possible means should be taken to develop the resources of the Empire and trade between the Empire countries, desires to reaffirm the Resolution on the subject of Imperial Preference passed by the Imperial War Conference of 1917.[17]

Australian and British representatives recommended that Empire governments show a preference in letting their contracts to Empire countries. Australia was especially insistent on a *quid pro quo* for the continuance of preferences in Britain's favour. Stabilization of Empire currencies as early as possible was adjudged necessary, and it was recommended that the Dominions and colonies acquire substantial sterling balances in furtherance of this objective. A uniform system of invoices and certifications for Empire trade was also recommended.[18]

After the conference the Baldwin government went to the country on the question of general protection to manufactures plus a tariff on wheat and other foods to serve as a basis for an Empire preference. The success of the strongly free trade Labour Party shelved all immediate plans for implementing the conference proposals as far as the mother country was concerned. When the Conservative party came back to power in October 1924 it was

[16] Great Britain, *Parliamentary Papers,* 1924, vol. X, Cd. 2009, pp. 241–243.

[17] The 1917 resolution favoured: "the development of Imperial resources and especially . . . making the Empire independent of other countries in respect of food supplies, raw materials, and essential industries." See *Sessional Papers,* vol. LX, No. 7 (1924), Paper No. 36, pp. 192–193. The 1917 resolution was quoted by Bruce of Australia.

[18] *Sessional Papers,* vol. LX, No. 7 (1924), Paper No. 36, p. 113.

pledged to lay no taxes on food or to introduce a general tariff; it did restore the McKenna duties abandoned by the Labour government, extend the safeguarding duties of 1921, and adopt the imperial preference proposals of 1923.

The next six years of Canadian tariff history were featured by stability broken only by reductions on some articles of capital equipment, automobiles, coal, and textile products, and an extension of the intermediate tariff to a large group of countries with which trade agreements were negotiated by Canada and Britain. The cumulative effect of the latter was not important to the general tariff levels of the country as the United States could not be included.

The tariff changes of 1924 followed the pattern laid down in 1922 and 1923 as they were expected to form the basis of the Liberal party's appeal for agricultural support in the face of the still rising power of the Progressives. Changes more than cut in half the duties on farm machinery and reduced that list to the nominal rates of 5, 7½, and 10 per cent. Mining, fishing, and lumbering equipment were further reduced. To make the changes more palatable to secondary manufacturers, iron and steel used to produce agricultural machinery now entered free (14–15 Geo. V, c. 38). The sales tax, which was reduced from six to five per cent at this time, was entirely removed from most of the commodities on which the tariff was reduced (14–15 Geo. V, c. 68) including farming machinery, and mining, lumbering, and fishing equipment.

The Conservative opposition condemned the tariffs of 1922 to 1924 as "sounding the death knell of protection" at a time when mounting tariff walls abroad and depreciated currencies in Europe made the safeguarding of Canadian industry essential. R. J. Manion even foresaw commercial union with the United States if the trend of Liberal policy continued.[19] The Progressives claimed that further reductions in the tariff should be accompanied by lighter taxation in general on the necessities of life.[20]

[19] *Debates*, 1924, III, 1540 and 1542.
[20] *Debates*, 1924, p. 1460 (Woodsworth).

The tariff changes of the disturbed political year, 1925, were insignificant. A minor change was made in the bituminous coal duties, placing a uniform rate of 50 cents a ton, general tariff, on all coal with the exception of anthracite.[21] Coal entering Canada for use in by-product coke ovens received a 99 per cent drawback of duties paid.

The dumping duties were somewhat clarified. The penalty duty, levied on free or otherwise dutiable goods, was now to equal any difference that might exist between the value of the goods for customs entry (based on fair market value in the country of export) and the export price of goods to Canada. Prior to this, the dumping duty had been set at the difference between the selling price of the goods in the exporting country and their purchase price by the Canadian importer. In his budget presentation of 1925 J. A. Robb announced the government's intention to set up an advisory board to study the results of the tariff changes of 1924 and to prepare for a general revision of the tariff. He said that drastic changes in the schedules would be deferred until this board had studied the subject.[22]

A few changes, however, were made in 1926. As a result of Canada's new trade agreement with the British West Indies, a reduction from 45 cents to 28.7 cents (approximately) per hundred pounds was made in the duty on sugar for refining. The principle of paying drawbacks on account of duties on materials imported to be manufactured and used for domestic consumption was extended to include certain automobile parts and importations for use in the rayon industry. To qualify for drawback certain minimum Canadian or Empire content requirements had to be met by domestic producers (16–17 Geo. V, c. 7). A minor change of considerable discriminatory effect denied the British preference, after January 1, 1927, to any goods not shipped directly to a Canadian port. This extension of the discriminatory principle established in

[21] The intermediate rate was 45 cents and the British preference rate 35 cents (15–16 Geo. V, c. 8). Prior rates had been 53 cents on bituminous lump coal and 13 cents on bituminous slack coal, general tariff.

[22] *Debates*, 1925, II, 1472.

1923 was a blow to trans-shipments through the United States and lasted until 1938.

In 1926, automobiles, which had been paying 35 per cent since receiving separate classification in 1907, were given a differential rating as follows: passenger cars valued at more than $1200 retail were now dutiable at 27½ per cent under the general tariff and 25 and 15 per cent under the intermediate and British tariffs.[23] Cars and trucks selling below $1200 retail paid 20 per cent under the general and 17½ and 12½ per cent under the other two categories. By a complementary stroke, however, a good portion of the tariff protection, removed by lowering the tariff, was restored to the automobile industry in the same year. The excise tax of 5 per cent,[24] which from 1922 (12–13 Geo. V, c. 47) had applied to domestic production and imported cars alike, was now removed from domestic cars retailing at less than $1200, providing the 50 per cent Canadian content qualification was met [25] (17 Geo. V, c. 10). This tax exemption was equivalent to protection of some 6 per cent since the imported automobiles (except under the British preference) still were assessed 5 per cent on duty paid value when the rate of duty was 20 per cent.

The Advisory Board on Tariff and Taxation, to which Robb had referred in 1925, was appointed in April 1926. The constitution of the board and its procedure are discussed below. By the time for the budget in 1928 it had completed hearings on the extensive textile classification and had made recommendations to Parliament for its revision. The usual alignment of opposing interests before the board reflected the interdependence of the different parts of the economy as processors and raw material

[23] Drawbacks were established of 25 per cent of duty paid on materials used in the manufacture of motor vehicles providing 50 per cent of the cost of the finished car was incurred in Canada.

[24] If the car retailed at more than $1200, 5 per cent was charged on the first $1200 and 10 per cent on all value in excess of $1200 (6 per cent was charged in 1923).

[25] Automobiles coming from countries entitled to the intermediate or British preference were also free from domestic excise.

producers pleaded for higher duties against the opposition of intermediate industrial consumers and representatives of the export industries, as well as the ultimate consumers.

In response to recommendations of the board the maximum duty on cotton goods was reduced from 37½ per cent to 30 per cent in the general schedule. The Fielding tariff of 1922 had established duties on cotton clothing and household goods of 30 to 35 per cent under the general and 30 and 22½ per cent under the intermediate and preference schedules. These rates were now reduced 5 and 7½ per cent. Woolen yarn, imported by the weaver for further manufacture, now could enter free under the British preference. Other textile items were adjusted downward and the margin of preference accorded Great Britain was broadened (18–19 Geo. V, c. 17). Schedule B, which provided drawbacks of duty paid on materials used to produce goods for domestic consumption, was broadened. Yarns and other raw materials used in textile production, certain grades of paper, aircraft engine parts, bituminous coal for certain industrial purposes, and metal tubing for transmitting natural gas were included. The portion of duty returnable as drawback ranged from 99 to 50 per cent, the lower rates of drawback applying for the most part to textile materials.

In 1929 mining machinery was placed on the free list (19–20 Geo. V, c. 39). This was the final step in a series of adjustments that reflected the trading policy of the Liberal party in the post-war period. In spite of pressure from the Progressive forces in Parliament, and dependence upon agrarian support, the Liberals had not abandoned many of the protectionist devices that had characterized the Laurier regime. Their changes were chiefly in the duties on the capital equipment of exporters, and, apart from automobiles and textiles, the duties on consumer goods were not much affected. Drawbacks and subsidies were used in place of, or as a *quid pro quo* for, reductions in duties whenever feasible. Other Liberal innovations of the Laurier period, the intermediate tariff and the British preference, were utilized as bases for a large

number of commercial treaties with foreign countries and the negotiation of treaties with the West Indies and Australia within the Empire.

In 1920, when a new agreement between Canada and the West Indies was negotiated, Canada allowed specified imports from the Indies a remission of 50 per cent of the general rates (11–12 Geo. V, c. 13). In 1926 (effective 1927) that treaty was again revised (16–17 Geo. V, c. 16), and its provisions were broadened. Canada agreed not to impose duties in excess of 50 per cent of the general rates on non-specified products of the Indies with the exception of tobacco and liquor.[26] Specific preferences were given on sugar, bananas, lime juice, rum, coffee, and other tropical products. Canada received concessions on flour, fish, cement, boots and shoes, apples, and dairy products.[27]

Of the foreign treaties, those with France were, until the Canadian-American agreement of 1935, of principal importance to Canada. After the war France decided to renegotiate all commercial treaties, including that of 1910 with Canada. In 1919 the latter was extended in modified form until 1923, but in 1922 a new treaty was negotiated. Under the terms of this agreement (13–14 Geo. V, c. 14), ratified by both signatories in 1923, intermediate rates were extended by Canada to all exports of France not enjoying special benefits or not entering the country at fixed rates of duty. Imports from France not subject to intermediate rates were divided into three categories in the convention. Under Schedule D an extensive list of meat, vegetable, textile, and miscellaneous products was admitted at fixed intermediate rates. Under Schedule E were grouped commodities subject to intermediate rates less 10 per cent. This list was a very extensive one, made up mainly of manufactured goods. Under Schedule F were included textile fabrics and clothing of various sorts dutiable at

[26] Some of the islands, such as the Bahamas, received reductions up to 75 per cent of the general rates.

[27] Canada also agreed to inaugurate a fortnightly steamship service between the Maritime provinces and the West Indies, to be financed by the Canadian government assisted by West Indies capital.

intermediate rates less 15 per cent. These concessions were extended to the United Kingdom and the British colonies and to other most-favoured-nations.

France gave Canadian products minimum tariff privileges on the French market on all commodities named in Schedule A of the convention, consisting chiefly of manufactured products. Under Schedule B were enumerated an extensive list of commodities which could enter French ports from Canada at specified reductions from the general or maximum tariff rates. The reduction was a percentage of the difference between the maximum and minimum schedules. The most substantial reductions were given on livestock and meat and poultry products, while lesser reductions were extended to more fully manufactured products. Reductions ranged in amount from 85 to 25 per cent of the difference between the maximum and the minimum schedules. Schedule C of the convention enumerated a list of Canadian products subject to the lowest tariffs levied by the French possessions of St. Pierre and Miquelon. All other Canadian products were subject to general tariff rates on entry into French ports. With certain exceptions, in the case of colonies or neighbouring states, the convention precluded France from granting other countries more favourable treatment than she accorded Canada under this treaty. The United States was especially designated in this regard. French colonies and possessions, or any British possession not enjoying British preferential rates, were also entitled to the privileges of the treaty.

The French treaty, ratified on June 13, 1923, was a most-favoured-nation treaty and was the chief link in Canada's commercial relations with foreign powers during the subsequent decade. All countries which entered into most-favoured-nation treaties with Canada were entitled to tariff and trade concessions at least as liberal as those granted to France. Through conveyance of goods between the ports of the two countries or shipments via a British country or a most-favoured-nation was a requisite for goods enjoying the treaty rates. France and Canada guaranteed to each other most-favoured-nation treatment as regards the

duties of exportations, re-exportation, transit, warehousing, the trans-shipment of goods, and the fulfillment of customs formalities. Canada promised, under the terms of this treaty, to maintain a fixed percentage difference between the intermediate and general tariff rates, thus sacrificing a measure of her tariff autonomy.

In 1923 Canada was granted most-favoured-nation treatment by Italy, which country was placed on a common basis with the French Republic by Canada (13–14 Geo. V, c. 17). In 1924 Belgium was given the advantages accorded to France, and Canadian wheat was excepted from a high tariff on the cereal imposed by Belgium in that year (14–15 Geo. V, c. 9). Finland (15–16 Geo. V, c. 11) and the Netherlands (15–16 Geo. V, c. 19) were also brought into most-favoured-nation agreements in 1925. In 1928 a treaty was negotiated with Czechoslovakia under the terms of which Canadian wheat was granted concessions on the Czechoslovakian market (18–19 Geo. V, c. 18). That same year Spain was given most-favoured-nation treatment by Canada in return for reciprocal concessions to Canadian produce on the Spanish market (18–19 Geo. V, c. 49). In 1928, also, Yugoslavia, Hungary, Roumania, Lithuania, Latvia, Estonia, and Portugal were given most-favoured-nation treatment by Canada in return for similar treatment of Canadian products in these small European states (18–19 Geo. V, c. 52). In each case, most-favoured-nation treatment meant the intermediate tariff plus any additional concessions granted under the Franco-Canadian Convention of 1922.

Although Canada's most important foreign commercial treaties have been negotiated with European powers, her economic relations with Latin America and the Orient have led to closer ties with those regions. In 1927 Cuba was granted intermediate rates by Canada in return for the Cuban general tariff schedule.[28]

The period 1912 to 1930 began with a more substantial measure of bi-partisan agreement on the tariff than the country had theretofore seen. This unanimity was broken by opposition to the incidental protection and taxation on the necessities of life con-

[28] P.C. 2227 (November 22, 1927).

tained in the war duties of 5 and 7½ per cent. The strength of western opinion in 1918 and 1919, and the subsequent winning of the balance of power by the Progressives, gave impetus to the enactment of tariff reductions by the Liberal administration from 1922 to 1925, contrary as they were to world—and especially United States—tariff trends of the times. The war gave strength to economic imperialism throughout the Empire, though the political power of the Labour Party in Britain delayed the introduction of important bilateral preferences until the stage was properly set for them by the great depression and the collapse of world trade in 1930. Meanwhile, relatively unimportant additions were made to Canada's list of commercial treaties with foreign and Empire countries other than the United Kingdom. Since no understandings were reached or seriously suggested with the United States, Canada was prepared to make reprisals when that country declared war on imports by the Hawley-Smoot tariff of 1930. The most important administrative development of the period was the establishment of the Advisory Board on Tariff and Taxation. The imprint of scientific inquiry and approval that such boards are expected to give to protective tariffs was much desired by the Liberal administration. The recommendations that the board was able to make to the minister of finance on the relatively few items that came under its scrutiny made for more consistent classification of items and a better balanced set of rates.

# CHAPTER XII

## COMMERCIAL POLICY IN DEPRESSION AND RECOVERY

From the onset of economic breakdown in 1930, the object of economic policy in Canada was recovery, and tariff revision was speedily brought into play for that herculean task. As the traditional instrument by which the government could regulate some of the operations of the economy, it was natural that the use of the tariff should be extended and broadened when collapse occurred, for the tariff instrument bore no stigma of radicalism or heresy. It could be accepted, in fact hailed, by a conservative public which would have had no use for "monetary tinkering" and even less for "pump-priming" or governmental regulation of business.

Canadian tariff policy was high lighted by three important events in the decade between the financial panic of 1929 and the outbreak of war in 1939. These were the changes in rates and administrative powers adopted by the Conservative party under R. B. Bennett's leadership in September 1930, the Ottawa Conference of 1932, and the *rapprochement* with the United States embodied in the Canadian-American trade agreement of 1935. Each of these events heralded a new emphasis in policy. The economic nationalism stressed by the Conservative leadership before and after gaining office in 1930 shaded into the economic imperialism of the Ottawa Conference, without losing any of its vigorous opposition to freer trade with the United States. The Liberals, in turn, on regaining power in 1935, managed to revise Canadian-American economic relations without much affront to the practices, if not the principles, of the Ottawa agreements.

If one looked for turning points in economic policy, the Dunning tariff of May 1930 would command equal attention with the events mentioned above. In the budget of Charles Dunning,

accepted by Parliament early in 1930, the Liberals adopted a retaliatory policy toward the United States, implemented in part by countervailing duties and in part by a broad extension of preferences to Britain, the Empire, and most-favoured-nations. The series of reductions in the general list of the previous eight years were definitely terminated. The economic importance of the Dunning budget proposals of 1930 was small, as the government left office soon after they were enacted into law (20–21 Geo. V, c. 13), and the incoming government carried trade restrictions much beyond those of the Liberal administration. As an important turning point in commercial policy, however, it commands our attention.

As the country began to feel the pinch of depression in 1930, the administration's critics demanded an effective reply to the ungenerous tariff policy of the United States exemplified by the Hawley-Smoot bill. The agricultural protectionism embodied in that, and earlier American tariffs, was keenly resented, and Canadian agriculture as well as industry demanded retaliation in kind. It was apparent that the Liberal government had little chance of survival in the approaching election unless these demands could be satisfied. Its answer was the adoption of the so-called countervailing principle. The Liberals proposed that certain Canadian duties be raised to the level imposed by certain foreign countries on Canadian exports. Meat, poultry, and other agricultural products and manufactures thereof, against which the American tariff had been raised in 1922 and 1930, were specifically mentioned. The minister of finance also proposed a thorough revision of the iron and steel schedule, following the recommendations of the Advisory Board on Tariff and Taxation, and a widening of the British preference over a large portion of the tariff. Under the general listing, rates were increased on 54 items and decreased on 46; under the intermediate schedule there were 35 increases and 98 decreases; while only 11 increases occurred under the British preference as compared with 270 decreases. The discriminatory rather than the protective features of the tariff, therefore, were strengthened by this revision. After the enactment into law of the

proposals of this budget, 589 out of a total of 1188 items in Schedule A of the tariff entered free under British preference.

As a remedial, or even retaliatory, measure the Dunning proposals did not promise to be overly effective. In many cases the United States had little to fear from British competition, even when Empire goods enjoyed free entry. Furthermore, countervailing duties, while appreciated by the small group of vegetable and fruit growers who found American competition destructive, could offer little to basic agriculture and nothing to industry demanding a high tariff as a buffer against depression.

The Liberal budget raised the duty on ingots, billets, slabs, and blooms from $2.50 to $3.00, and even to $4.50 per ton on certain items.[1] At the same time some 70 iron and steel items, including heavier forms, were placed on the free list under the British preference. Although both the primary and secondary branches of the steel industry were well treated by the Dunning proposals, these were no reply to the exclusionist demands of the time. According to its advocates the underlying motive of Liberal policy, even in the Dunning budget, had been to encourage export trade: "This budget is frankly framed to enable us to buy more freely from those countries that buy from us . . . in the confident belief that by this means we shall help to develop and stabilize export markets for our surplus products."[2] The countervailing duties were retaliatory, not protective in purpose and operation, and, as Bennett pointed out in the budget debate, rates "made in the United States" could not be a basis for effective protection to Canadian industry.[3]

Political debate in the campaign of 1930 did not differ materially from that of the National Policy election of sixty years before. Opposition to the United States and its tariff policies, desire for preferences in the British market, and economic depression were again foremost issues. As J. F. Foster, president of

[1] A bounty of 49½ cents was given on coal for coke used in the iron and steel industry (20–21 Geo. V, c. 6).

[2] Budget Speech, *Debates,* 1930, p. 1631.

[3] *Debates,* 1930, p. 1832.

the Montreal Trades and Labour Council summarized representative labour opinion:

> We are fully aware of, and widely awake to, the fact that we depend for our existence upon the development and expansion of the Canadian industrial establishment. . . . We believe that it is the duty of the Government to so manage our fiscal policy that the Canadian workman will not be compelled through idleness in industry to migrate to foreign lands to find employment and earn his living.[4]

Stephen Leacock, anti-reciprocity speaker of 1911, gave his approval to a "friendly" jolt aimed at the United States;[5] and C. H. Cahan, Quebec Conservative, was "prepared to give a preference to the British Empire over the producers to the south."[6] The same theme was developed at length across Canada and, aided by deepening depression, did much to bring the Conservative party to power in July 1930.

The Conservative government came to office pledged to test completely the effectiveness of the protective tariff as an offensive weapon to fight the deepest depression in the nation's history. R. B. Bennett, the new prime minister, stated that imports should consist only of goods that could not be produced in Canada and that maximum employment would be obtained by a careful revision of the duties. The alterations calculated to accomplish this objective were contained in the budget proposals of the emergency session of Parliament in September 1930 and the regular session in June 1931 (21 Geo. V, c. 3 and 21–22 Geo. V, c. 30).

Changes in rates were confined largely to the general and intermediate schedules, though the British preference did not go unscathed. The duty revisions aimed at preventing "dumping" from the glutted markets of the United States were most effectively supplemented by new administrative controls over the effective rate of duty, discussed in the next chapter. Suffice to say

[4] Information Service, Canadian Reconstruction Association, No. 86, December 7, 1930.

[5] *Montreal Daily Star,* Nov. 5, 1929, p. 4.

[6] *Montreal Gazette,* May 23, 1930, p. 14.

here that administrative devices alone raised the actual tariff level as much as 10 per cent. The tariff increases of September 1930 and June 1931 established several new specific duties on goods which the previous administration had placed on the free list,[7] for example, the 40-cent duty on anthracite and the $1.00 duty on coke under the intermediate and generals schedules. Substantial specific duties were combined with the prevailing or augmented ad valorem duties to re-establish compound duties as an important part of the tariff. Textiles were the principal beneficiaries of this kind of revision.

The administration could contend that the absolute amount of duty under the ad valorem tariffs had declined with the fall in prices during the depression. Opponents of their policies, with greater weight, argued that the new specific duties meant a steadily rising burden for the consumer and export industries during the years of deflation ahead. As Table 18 shows, Canada used the ad valorem type to a greater extent than other countries even after the revision of September 1930.

TABLE 18

TYPES OF DUTIES EMPLOYED BY VARIOUS COUNTRIES[a]

| Country | Year Ending | Percentage of Imports Subject to· | | | |
|---|---|---|---|---|---|
| | | Ad Valorem | Specific | Compound | Free List |
| Canada . . . . . . . . . | March 31/31 | 44 5 | 18 8 | | 36 7 |
| United States. . . . . | Sept. 30/31 | 17.6 | 11.4 | 2 5 | 68 5 |
| United Kingdom . . . . | March 1/32 | 44.1 | 26.1 | | 29 8 |
| Australia . . . . . . | June 30/31 | 34.4 | 26.9 | | 38 7 |
| New Zealand . . . . | Dec. 30/31 | 37.5 | 19 4 | | 43 1 |

[a]U.S. Tariff Commission, 2d Series, Report No 70, p. 7

A comparison of the rates prevailing after the June 1931 increases, with the tariff after the revisions of 1924 may be interesting. Such a comparison on a selected list of commodities is provided in Table 22. Some of these changes, notably on agricultural commodities, were partly effected by the Liberals in 1930, but the

[7] 21–22 Geo. V, c. 30.

textile duties which the Bennett government found on entering office in 1930 were even lower than the 1924 levels. The increases on bituminous coal, agricultural machinery, boots and shoes, tin-plate, mining machinery, and the entire textile and iron and steel schedules indicate the sweeping nature of the revision. Some essential materials such as aluminum and gutta-percha remained on the free list, as did machinery not made in Canada. But the principle of limited or selective protection was definitely abandoned. Agriculture, extractive industries, and manufacturing were all treated to liberal portions of the same dose. Even the revered British preference rates were raised, for example a 5 per cent plus 3 cents per pound increase on grey and bleached cotton goods and a 25 cent per pound rise in the general woolen goods category. In some but not all of the instances where the British duties were raised, the general and intermediate rates went up still more. In addition to the increases of the orthodox type, a special excise tax on imports was introduced (21–22 Geo. V, c. 54).[8] The upper limit of the dumping duties, formerly 15 per cent ad valorem, was raised in September of 1930 to 50 per cent.

In Parliament and out the new tariff was vigourously attacked by Labour, Progressive, and Liberal opposition. The government was accused of emulating the practices of Sir John A. Macdonald's day by asking the manufacturers to press their own tariff needs at as high a level as they desired. The new powers of the minister of revenue enabled him to fix the value for duty of all commodities, not merely natural products. This would take the control of the tariff out of Parliament and vest it in the hands of the administration. "Pulling oneself up by his bootstraps" was the Liberal opposition's caricature of the government's economic philosophy.[9] Manufacturers, on the other hand, particularly leaders of the

[8] From June 2, 1931, to April 6, 1932, one per cent was levied upon the duty paid value of imported goods, regardless of country of origin. On April 7, 1932 this special excise was raised to 3 per cent. After April 18, 1934 it was reduced to 1½ per cent on goods from British countries entitled to the preference or to special treatment under trade agreements. After March 23, 1935 it was entirely removed from imports from British countries.

[9] *Debates*, 1930, Special Session, pp. 316 and 395. *Ibid.*, 1931, III, 205–206.

textile, tin-plate, shoe, and metal industries, hailed the revision.[10]

Although emphatic in its espousal of imperial economic unity, the Conservative party had traditionally regarded the British preference as a one-sided bargain. From the protectionist point of view, gains from tariff concessions were to be measured in reciprocal concessions to Canadian exports which the preference up to 1930 had not produced to any important extent. Before the tariff adjustments of September 1930 Bennett went to the imperial conference in London, intent on gaining a preferred position for Canada in the British market and prepared to use continuance and broadening of the British preference as a bargaining weapon. He proposed to the conference that Britain place herself in a position to pay for advantages on Empire markets by imposing a duty of 10 per cent on foreign imports not otherwise dutiable at higher rates. Canada for her part would add 10 per cent of existing rates to her own tariff as it applied to foreign countries. This request for British action was rejected by the Labour government which then represented leading free traders of Britain.

As the depression deepened in Britain the nationalistic and imperialistic points of view gained ground, spurred on by the hostile economic policy of the United States and Europe. The economic conference of 1927 and the preliminary conference for concerted action in 1930 had yielded no concrete results. The pressure on the over-valued pound increased. Influential opinion thought that in protection might be found a defense for sterling and a means of avoiding devaluation.[11] The national government which came into power in August 1931 was dominated by the intellectual heirs of Joseph Chamberlain. Stanley Baldwin's call for protection in the election of October 1931 became the issue of the campaign. The national government's overwhelming victory in this election assured the end of British free trade.

By the Abnormal Importations Act of November 24, 1931 (22

[10] "Protection Benefits Canada," *Protectionist*, XLII (1930), 396–401 and "Canada's Emergency Tariff," *ibid.*, XLII (1930), 271–275.

[11] H. P. MacMillan (Chairman), *Report of the Committee on Finance and Industry* (London: His Majesty's Stationery Office, 1931).

Geo. V, c. 1, Imp.), Britain completed a policy of protection which started with the Safeguarding of Key Industries Act of 1921.[12] The former gave the government power to levy duties on manufactured goods in case importers tried to forestall, by abnormal importations, the increases expected early in 1932. The act was also expected to ease the precarious position of the declining pound sterling. For these purposes, duties up to 100 per cent on manufactured goods produced outside the Empire could be applied by the board of trade with the sanction of the House of Commons (50 per cent was the highest duty actually levied). The Horticultural Products Act (22 Geo. V, c. 3, Imp.) served a similar purpose with respect to fruits and vegetables.

On February 29, 1932, the permanent tariff contained in the Import Duties Act (22 Geo. V, c. 8, Imp.) became law. It provided a tariff of 10 per cent on British imports with the exception of wheat, meat, and essential raw materials. Pending the Ottawa Conference, imports from the Empire were exempt from this duty. Retaliatory duties up to 100 per cent could be levied against non-Empire countries discriminating against British exports. These acts reduced the free list from 83 per cent of total imports in 1930 to about 30 per cent in 1932.[13] Of Canada's exports to Britain which were on the British free list, 54.3 per cent would have been subject to duties ranging from 10 to 33.3 per cent, following March 1932, had they come from a foreign country.[14]

When the Empire countries met at Ottawa in the summer of 1932, for perhaps the most crucial peacetime imperial conference to date, the principal trade agreements negotiated were between the United Kingdom and the Dominions. A year before, on August 3, 1931, a new Canadian-Australian agreement, supplanting that of 1925, had been ratified (21–22 Geo. V, c. 16). A new agreement between Canada and New Zealand was also negotiated on May 23, 1932 (22–23 Geo. V, c. 34). Australia and

[12] 11–12 Geo. V, c. 47, Imp.

[13] Percy W. Bidwell, *Our Trade with Britain* (New York: Council on Foreign Relations, 1938), p. 66.

[14] *Economist,* vol. 115, October 22, 1932, Ottawa Supplement, p. 2.

New Zealand had been given special concessions on meats, poultry, dairy products, and fruits. The two dominions received from Canada rates on meats 1 cent per pound below British preference levels and 3 cents below British preference rates on butter, or 9 cents below the general tariff levels. Apples, passion fruit, fruit pulp and, during the spring and winter months, pears were admitted free from New Zealand. Other fruits, sugar for refining purposes, peanuts, wines, and brandy received rates below the British preference. Binder twine, combed wool, hides, and skins received favoured treatment in the case of New Zealand. Australia gave Canadian timber products, certain special rubber products, and automobile chassis the Australian intermediate tariff. However, wheat and wheat flour, most automobile parts, rubber tires, pianos, and wrapping paper were subject to the general tariff. New Zealand specified that certain timber products, automobiles, farm machinery, building materials, fish, and fruits were entitled to special rates.

Products not specifically enumerated in these inter-Dominion agreements were subject to British preference rates. An interesting feature of the Canadian-Australian pact was a promise by Canada to impose a tariff of 25 per cent on non-Australian rice as soon as Australia was able to supply the Canadian market, the Australian product to continue to enjoy free entry. A similar provision related to peanuts in which a duty of 4 cents was provided to apply to all countries except Australia when Australian supplies could meet Canadian needs. The signatories agreed to maintain the margins of preference indicated in the schedules of the agreement whether the agreement specified intermediate tariff, British preference, or still lower rates for the goods of the other country. Canada exempted Australian goods from the dumping duty clause of her tariff, and Australia reciprocated by exempting Canadian goods from the provisions of her somewhat similar Industries Preservation Act of 1921. A similar arrangement was made with New Zealand. Each country could protest if domestic industry was being endangered by imports from the other. If a satisfactory settlement of such difficulties was not accomplished,

the goods in question lost all preferences in the markets of the complainant, or, in the case of New Zealand, dumping duties could be applied.

It will be noted that the British preference rates formed the basis of these bilateral treaties, but that on major items of trade rates lower than preference duties on non-competitive goods and higher on competitive goods were used.[15] Out of 438 items in the Australian tariff the agreement gave Canada the British preference on 420, special rates on six, and the general tariff on twelve. New Zealand granted her preferential tariff to Canada except on tinned pears, silk and artificial silk hosiery, plaster-pulp sheets, some farm machinery, electric stoves, and motor cars of less than 75 per cent Canadian content. On these items, however, she gave Canada rates lower than her general tariff. A surtax of 22½ per cent of the existing duty was temporarily levied on all imports from Canada, as well as other countries except the United Kingdom, Australia, and a few other British countries.

The first trade agreement between Canada and the Union of South Africa was signed at Ottawa on August 20, 1932 (23–24 Geo. V, c. 3). Canada gave South Africa free entry, specified rates, or British preferential rates on a total of 46 commodities. There was a guarantee on specified goods of lowest rates (excluding concessions to the British West Indies) and the maintenance of margins of existing preference against foreign goods. Canada was guaranteed former margins of preference on a group of important exports, such as wheat, wheat flour, newsprint, tires and tubes, and binder twine. New preferences were obtained on apples, elevating machinery, electric vacuum cleaners, electric batteries, and a number of minor products. Canada was also guaranteed any preference that might be created by South Africa on tinned vegetables, agricultural implements, cream separators, boots and shoes, toilet preparations, motor vehicles, cash registers,

[15] At Ottawa in 1932 Australia guaranteed that when the British preference rate was 19 per cent or less, the margin of preference would be at least 15 per cent ad valorem. For British preference rates between 19 and 29 per cent, the margin was to be 17½ per cent, and if the British preference exceeded 29 per cent the margin was to be 20 per cent.

non-skid chains, and certain wood and paper products. South African preferences on wheat and flour were small, however, and her maximum tariff on newsprint, wood products, mechanics' tools, and other small items was so low that little margin of preference was possible. Some evaluation of these inter-Dominion trade agreements will be made after a summary of the Canadian–United Kingdom trade agreement. An agreement, following the Australian model, was signed with Southern Rhodesia at the conclusion of the Ottawa conference (23–24 Geo. V, c. 5). Southern Rhodesia granted Canada much the same concessions as did South Africa. Canada gave Southern Rhodesia free entry on a number of tropical fruits and nuts. Otherwise each country gave the other the British preferential tariffs of their respective tariff lists.

At the Ottawa conference the United Kingdom did not follow the Dominion's practice of bilateral agreements. While Canada made tariff concessions to Britain which were not open to other Dominions, British concessions applied to all Dominions alike (23–24 Geo. V, c. 2). Five types of concessions were extended by the mother country: (1) The margin of preference temporarily granted the Empire under the Import Duties Act was preserved and guaranteed for five years. (2) All categories of Empire produce coming in free under the Import Duties Act continued on the free list during the tenure of the agreement although the United Kingdom was not obliged to maintain the margin of preference by continuing existing rates against foreign goods. (3) Certain raw materials (see Table 19) were taxed when of foreign origin but remained free from the Empire. (4) Britain replaced ad valorem with specific duties on certain goods to preserve the actual margin of preference (in monetary terms) in favour of the Empire countries. (5) Imports of meat were later to be subject to a quota system, the effect being to increase the proportion of United Kingdom supplies purchased from the Dominions.

The duration of this system was to be five years after which time the British government reserved the right to re-consider the interests of the United Kingdom producer and to review the basis of preference and either (a) to impose a preferential duty on all

TABLE 19

British Preferences on Empire Exports After Ottawa

| Article | Margin of Preference |
|---|---|
| Wheat in grain | 2*s* quarter |
| Butter | 15*s* per cwt. |
| Cheese | 15% ad valorem |
| Apples, raw (excluding cider apples) | 4*s* 6*d* per cwt. |
| Pears, raw | 4*s* 6*d* per cwt. |
| Apples, canned | 3*s* 6*d* cwt. plus difference in duty due to sugar content |
| Eggs in shell | |
| Not over 14 lb. per great hundred | 1*s* per great 100 |
| 14–17 lb. per great hundred | 1*s* 6*d* per great 100 |
| over 17 lb. per great hundred | 1*s* 9*d* per great 100 |
| Condensed milk, whole sweetened | 5*s* per cwt. plus difference in duty due to sugar |
| Condensed milk, whole not sweetened | 6*s* per cwt. |
| Milk powder and other preserved milk not condensed, not sweetened | 6*s* per cwt. |
| Honey | 7*s* per cwt. |
| Copper, unwrought, ingots, bars, blocks, slabs, cakes, rods | 2*d* per pound |
| Timber imported into U.K. from Canada, substantial quantities insofar as dutiable | 10% ad valorem |
| Fish, fresh sea, excluding fish livers | 10% ad valorem |
| Chilled or frozen salmon | 1½*d* per pound |
| Salmon, canned | 10% ad valorem |
| Other fish, canned | 10% ad valorem |
| Asbestos | 10% ad valorem |
| Zinc | 10% ad valorem |
| Lead | 10% ad valorem |
| Patent leather not part of another article, goods composed wholly of patent leather | 15% ad valorem |

Dominion produce, raising the foreign duty so as to preserve the existing margin of preference, or (b) to bring such produce within any system that might be adopted for regulating external sources of supply in the British market.[16] In the case of the 2*s*. per quar-

[16] The United Kingdom entered into agreements with several northern European states, agreeing not to tax their products unless domestic marketing arrangements should make it necessary. Such measures became "necessary" in 1933, and Mr. Elliott, the minister of agriculture, realistically decided to adopt the quota system

ter duty on foreign wheat, and also in the case of the moderate duty imposed upon copper, the British government could remove the duty upon foreign imports "if at any time Empire producers are unable or unwilling to offer these commodities on first sale in the United Kingdom at prices not exceeding the world prices, and in quantities sufficient to supply the requirements of the United Kingdom consumers." In the case of meat imports the policy of the British government was (1) to secure the development of home production and (2) to give the Dominions an expanding share of British imports. Meats from the Dominions, notably Australia and New Zealand, could enter the British market sharing the quota in accordance with the amount shipped during the year prior to the adoption of the quota. This provided for a fairly liberal arrangement.

The schedules in the Canadian tariff affected by the Ottawa agreement with the United Kingdom related to 215 items, or about one-seventh of the total in the Canadian list. In 132 cases duties on British goods were reduced, and in 83 cases increased margins of preference were secured by raising foreign tariff rates. In 79 cases goods from the United Kingdom were placed upon the free list. Based upon the 1931 trade figures $125,000,000 of Canadian trade was affected by the altered schedules, $54,500,000 of which was British. The most significant feature of these agreements was the extent to which the margin of preference was actually altered. It is difficult to determine this margin definitely because of the fact that in many cases the duties applied to particular goods were both specific and ad valorem.

Table 20 shows the extent to which the margin of preference between general and preference rates was increased, and the volume of British and American trade affected by these changes. The United States had enjoyed about two and one-half times as

on meat and dairy products as the best way of raising prices in the United Kingdom. Denmark, the principal source of supply of these products, was given a quota of 62 per cent of non-Empire imports of ham and bacon, 2,300,000 cwt. of butter, and 5,500,000 million great hundreds of eggs. Similar agreements, durable till 1936, were negotiated with a number of additional European countries. See Great Britain, *Parliamentary Papers*, 1932–33, XXVII (Cmd. 4298 and 4424), 205 and 235.

much trade in the affected lines in 1931 as the United Kingdom. It is noteworthy that the increases were most substantial in lines where the position of the United States had been most dominant.

TABLE 20

INCREASED PREFERENTIAL MARGINS GRANTED BY CANADA AT THE OTTAWA CONFERENCE[a] [b]

| Increased Margin of Preference | Amount of U K. Trade Affected (1931 Basis) (*In Millions*) | Amount of U. S. Trade Affected (1931 Basis) (*In Millions*) |
|---|---|---|
| 5% or less .... | $5.5 | $ 7.2 |
| 5–10% ...... | 2.8 | 13.5 |
| 10–15% ........ | 4.1 | 3.6 |
| 15–20% ...... | 1 3 | 9.4 |
| Over 20%........ | 0.6 | 2.5 |
| Total .. .... | $14 3 | $36.2 |

[a] *Economist*, vol 115, October 22, 1932, Ottawa Supplement, p 11.
[b] (Trade figures on classifications unaffected by Ottawa agreements are omitted.)

A number of commitments were entered into at Ottawa by Canada as well as other Dominions to govern their future tariff policies. Three stipulations in the agreements are worthy of mention. (1) The Dominion agreed to give protection only to industries which were reasonably assured of sound opportunities of success. (2) She agreed to keep protective duties down to a level that would give United Kingdom producers full opportunity for reasonable competition on the basis of the relative costs of economical and efficient production. Special consideration could be accorded in the case of industries not fully established. (3) Existing duties were to be subject to revision by the Tariff Board in accordance with the principle laid down in (2). She also agreed to remove surcharges or exchange dumping duties on British goods.

These stipulations left the door open for the advancement of practically all important arguments for higher duties. Their interpretation imposed a heavy task upon the tariff boards responsible for defining economical and efficient production in practical life. The so-called "comparative cost" or compensatory duty

principle was left in play. If world price were to be the basis for determining what constituted economical cost of production, the principle might have had greater applicability. This idea was hardly in the minds of those drafting the treaties, however, nor was it evident in the subsequent expressions of the tariff boards.

Since the Canadian administration regarded protection as an instrument for national development and recovery, the idea pervading the Anglo-Canadian negotiations was to make concessions to the manufacturing interests of the United Kingdom at the expense of foreign rather than Canadian manufacturers. Canadian duties upon those goods which Canada genuinely desired to protect remained, for the most part, at prohibitive levels, even though the British producer was accorded a margin of preference equivalent to 10 to 20 per cent of the duty to which foreign goods were subjected.

The framework of Canada's commercial relations with foreign countries was modified by the concessions granted to Empire countries at Ottawa. To clear the situation at the imperial conference, the French Convention of 1923, which had provided for certain rates below the level of the intermediate tariff to France and consequently to other most-favoured-nations, was abrogated by the Bennett government in June of 1932, the abrogation to take effect the following year.[17] In June 1933 a new French convention (23–24 Geo. V, c. 31 and P.C. 1103) was negotiated. This provided for admission into France of a substantial group of natural and manufactured products either at the French minimum tariff rates or at the French general tariff rates less a discount of between 40 and 75 per cent. The discount on the more important

[17] Canada had given certain foreign countries, such as Italy, full most-favoured-nation treatment, including rates lower than the intermediate tariff on articles stipulated in the French Convention of 1923. To others, for example, Brazil, the intermediate tariff only was given (P.C. 3071, December 10, 1931), and they were not, until the abrogation of the French Convention, full most-favoured-nation countries. The French Convention of 1933 did not even restore to France the full intermediate tariff and was, therefore, not a full most-favoured-nation agreement. The Polish and American agreements of 1935 were, however, full most-favoured-nation agreements. Austria was given most-favoured-nation status following the Ottawa conference.

Canadian exports was about 65 per cent. The principal Canadian products entering France under this minimum tariff were meat products, dairy products, fish, wheat, apples and other fruits, timber products, base metals, a substantial list of iron and steel products, automobiles, and automobile parts. The items entering France under the discount from general tariff rates were less numerous and more largely manufactured and fully processed goods. Canada, on her part, conceded to France her intermediate tariff less a discount of 10, 20, and 25 per cent on a large list of specialized French products under Schedule C of the agreement, and the intermediate rates on eleven groups of items including certain animal and fish products, sugar and molasses, tobacco, liquors, pulp and paper, chemicals, textiles in certain specialized lines, and non-competitive metal products. French goods not specifically mentioned in the convention were subject to the general tariff until June 6, 1939, when intermediate rates were to apply. Concessions granted to France were extended to French possessions and protectorates and of course to countries enjoying most-favoured-nation treatment from Canada. It is worthy of note that except for commodities mentioned in the schedules of the convention, that instrument did not extend complete most-favoured-nation treatment to France until the Canadian intermediate tariff became effective with respect to France in 1939. France limited her most-favoured-nation treatment to commodities receiving the French minimum tariff. The convention ruled out discriminatory trade policies which might be adopted by either country to the disadvantage of the other, but it allowed exchange dumping duties and other measures of a generalized nature which are usually permissible even under most-favoured-nation agreements.

In 1935 a convention, somewhat similar to the French, was negotiated with Poland and became effective July 5, 1935 (25–26 Geo. V, c. 51). Reciprocal most-favoured-nation treatment was given, and certain specified commodities were accorded rates lower than the intermediate tariff. Canada gave Poland the intermediate rates less discounts of 20, 25, and 45 per cent on canned

hams, clover seed, and mushrooms respectively; 10 per cent for certain glassware and house furniture, and similar discounts on minor products including manufactures of alabaster, travelling equipment, and motion picture films using the Polish or Ukrainian languages. Sulphate of ammonia, horse hair, hides, and furs were the most important products placed on the Canadian free list by the convention. Canadian chemical wood pulp, fish of certain types, and painted leathers were subject to reductions ranging up to 75 per cent from the Polish customs tariff. Special arrangements regarding Polish border traffic and trade concessions to certain contiguous countries, such as Estonia, Latvia, Lithuania, and Finland, were not included in or disturbed by this convention. The most-favoured-nation treatment was not applicable to goods constituting a state monopoly, but it did extend to standard provisions of most-favoured-nation treaties relating to salesmen, tourists, ships, transit dues and internal taxes, ownership of property and all commercial relationships.

The commercial treaties negotiated by Canada immediately following Ottawa were somewhat less liberal than those which had been based on the French Convention of 1923, and their value was of course reduced by the broadening of imperial preferences before and during the Ottawa conference. With Canada's second best customer and greatest source of imported goods, the United States, little prospect of satisfactory negotiations appeared likely after the Ottawa conference, although rumours of a *rapprochement* were heard in Canada following the passage of the Reciprocal Trade Agreements Act in 1934.[18] On November 14, 1934 the Canadian government addressed a note to Washington requesting that negotiations be initiated.[19]

[18] *U. S. Statutes at Large,* vol. 48, pt. 1, pp. 943–945. Executive authority for the negotiation of trade agreements came from the flexible clause in the Fordney-McCumber Tariff of 1922 renewed in the Hawley-Smoot Act. The president was thereby impowered to reduce or increase any duty by 50 per cent but not to transfer articles from the dutiable to the free list. The Trade Agreement Act of 1934 specifically laid down the general clauses which the agreements should contain.

[19] In April 1933 Mr. Bennett and Mr. William Phillips of the Department of State had consulted on the question of a trade agreement. Canada wanted lower duties on fish, lumber, copper, and wheat. The United States was chiefly inter-

The difficulties in arriving at satisfactory trading relations between Canada and the United States have been explored throughout this book. On top of the agricultural protectionism of the Hawley-Smoot bill, the United States Revenue Act of 1932 imposed a $3.00 per thousand duty on important Canadian lumber exports and a 4 cents per pound tax on copper.[20] The United States protectionists had resented the Ottawa Agreements as an infringement of the most-favoured-nation principle. The United States Chamber of Commerce report of 1933 on "Most-Favoured-Nation Treatment and Bargaining Tariffs" stated that British Empire preferences should not be recognized as an admissible exception to most-favoured-nation treatment.[21] Since 1923 the United States had adhered to the unconditional most-favoured-nation clause in commercial arrangements. The rise of prohibitive tariff barriers supplemented by discriminatory regional agreements and preferences within colonial empires seemed indeed to have nullified much of the usefulness of this clause before it was incorporated into the Hull trade agreement program.[22] The misuse of the clause was described by Sir Arthur Salter in 1932:

More recently the benefit of the unconditional clause has been claimed by countries who have very high tariff systems, and the situation has

ested in a change in Canadian "valuation for duty" methods and in lower duties on fresh fruits, fresh vegetables, iron and steel products, electrical apparatus, and coal. See W. W. McLaren, "The Canadian-American Trade Agreement," in *Conference on Canadian-American Affairs,* Queen's University, 1937 (Boston and New York: Ginn and Co., 1937), pp. 8–9.

[20] *U. S. Statutes at Large,* vol. 47, pt. 1, p. 260.

[21] In 1933 Canada and France were the only major countries which had not agreed by treaty to give the United States most-favoured-nation treatment.

[22] In standing for a generalized interpretation of the most-favoured-nation clause, the United States has moved in the face of current trends among treaty-making European powers. Most European trade agreements entered into during the 1933–34 years of the depression, and they have numbered well over 100 in all, have tended to become conditional and discriminatory, with a widespread use of the quota device. The idea that bi-party treaties should look to the balancing of trade between the two signatories thereof has grown apace, in fact this argument was given a place of prominence in the preliminary correspondence between Canada and the United States in 1935. The "chief supplier" clause made it possible to use bilateral negotiation and unconditional most-favoured-nation principle.

1922. Newsprint, lumber, shingles, farm implements, asbestos, and maple sugar were the principal of 32 items having the same rates as under the Fordney-McCumber Act. Agreement rates were higher than the Fordney-McCumber duties on some 14 items, including hewn lumber, cream, leather, and grass seed. The agreement reduced 12 items, having a total trade of $1,637,000 in 1935, to the Fordney-McCumber levels.[25] Concessions made by the United States in 1935 partly removed the high duties imposed upon natural products by the Hawley-Smoot Tariff. Canada received concessions on 88 items of which 63 represented reductions in existing duties, four the binding of existing duties, and 21 the binding of free entry. The items affected constituted 61 per cent of Canadian exports to the United States in 1929 and 66 per cent of the same in 1934. A significant innovation in the trade relations of the two countries was the system of quotas on Canadian natural products coming into the United States under reduced rates. After a specified volume of imports was registered the United States tariff on the product in question rose again to its pre-agreement level.

TABLE 21

VALUE OF GOODS AFFECTED BY THE AGREEMENT ACCORDING TO EXTENT OF CONCESSIONS TO CANADA[a]

| Concession | No of Items | United States Imports from Canada 1929 | 1934 |
|---|---|---|---|
| 50% reduction | 27 | $ 44,000,000 | $ 23,400,000 |
| 44% to 49% reduction | 11 | 6,100,000 | 700,000 |
| 30% to 39% reduction | 11 | 20,000,000 | 2,800,000 |
| 20% to 29% reduction | 15 | 8,400,000 | 3,600,000 |
| Less than 20% reduction | 1 | 200,000 | 200,000 |
| Free entry assured | 21 | 220,700,000 | 111,200,000 |

[a] Material prepared from Canadian government data, provided by a press release, November 17, 1935.

Canada granted most-favoured-nation treatment to the United States, including the privileges which were being or might be granted to foreign countries under the terms of her intermediate

[25] Material prepared from Canadian government data, provided by a press release, November 17, 1935.

tariff. In addition, specific reductions below existing most-favoured-nation rates were made in respect to 88 tariff items. The latter concession was probably the more important of the two. The principal machinery item of the Canadian tariff, "machinery not otherwise provided for," was reduced from 35 per cent ad valorem to 25 per cent, with a lower rate of 20 per cent to apply to machinery of iron and steel of a class or kind not made in Canada. This has been a significant item in Canadian foreign trade. For example, in 1934 imports in this latter class amounted to $7,000,000, of which $6,000,000 came from the United States. The machinery for particular industries was also mentioned in specific items in the agreement. Heavy electrical machinery and manufactures of iron and steel not elsewhere specified were reduced. Fruit and vegetable schedules were reduced so that 15 per cent ad valorem became the basic rate of duty. The Dominion reduced the rate of duty to the United States with respect to 68 items, placed 20 formerly dutiable items on the free list, undertook not to increase the intermediate rate of duty on 77, and promised not to impose duties on 15 items then duty free.

The agreement accepted, as far as the United States was concerned, the position of Canada in her trade relations with the British Empire and of the United States with respect to Panama and her island territories. It was subject to termination by unilateral action of either signatory in event imports from the other country prejudiced a domestic industry of a signatory, or if, on the extension to third countries of concessions enumerated in the agreement, the major benefits of such concessions accrued to the third country. This latter stipulation indicated the intention to make the agreement serve the ends of a bilateral treaty even while it contained the most-favoured-nation clause. In view of the policy of the Dominion government to make ministerial administration of valuation provisions of the customs act serve the ends of restrictive commercial policy, the United States insisted that some limitation be placed on the power of the Customs Department to place high valuations for duty on American goods. Accordingly, it was agreed that in the case of fresh fruits and vegetables, where high

valuations and "dumping duties" had given the domestic producers very high protection, no special valuations should be used in many cases, and in others, covering most small fruits, the value established by the minister could not exceed the invoice value by more than 80 per cent of the lowest advance imposed on the goods during the years 1932 to 1935 inclusive.

The agreement contained several other features common to other agreements in the Hull program and it removed the 10 per cent discrimination in the Canadian tariff against transit trade via United States ports on goods from British or treaty countries.[26]

Although the Conservative party had planned to negotiate a trade agreement with Washington before leaving office in 1935, its spokesmen attacked the terms of the 1935 agreement on the ground that Canada had not sufficiently exploited her position as a good customer of the United States. They stressed the unfavourable balance of trade with the United States considered from a bilaterial point of view.[27] The King government tried to emphasize the fallacy of this attitude and laid great stress on the purchasing power that increased exports would give.

[26] Most-favoured-nation treatment was given for all products, both imported from and exported to the other country. This related to matters of tariff, import prohibitions and restrictions, quotas, etc. Canada limited the duty on a list of American goods to those indicated and agreed not to charge additional taxes or fees over and above those in effect at the date of negotiation of the agreement. However, customs duties to equalize internal excises and taxes were not prohibited. Most-favoured-nation treatment was to apply to internal taxes levied on imports as well as to import duties themselves. No quota not provided for in the trade agreement was to be applied In event one country bestowed a monopoly privilege upon a particular individual or corporation relating to the import of a particular commodity, the other country was to be given equitable treatment. If exchange controls were introduced by either country, a fair share of foreign exchange was to be allotted to the other country. (Experience of a previous representative period was to be used in allotting foreign exchange.) Severe exchange depreciation might be grounds for modifying or terminating the agreement. Each country was left free to impose any restrictions or controls on exchange of precious metals, and for the purposes of sanitation, health, and the control of misbranding. The treaty contained the "chief supplier" clause; in other words, the agreement could be terminated or modified if a third country appeared to be obtaining a major share of the advantage therefrom.

[27] *Debates,* 1936, I, 623.

The agreement became operative on January 1, 1936. Its influence on trade will be discussed below. Though probably important in Canadian import and export trade with the United States, the effects of the treaty are inseparable from the influence of two other factors: the general economic recovery in the trading nations, and the great drought in the western United States which increased imports of agricultural products from Canada in 1936–37.

In any case, this agreement was an event of substantial historical importance. With the extension of the privileges of treaty rates to the United States the intermediate tariff, since 1907 an unimportant factor in the Canadian tariff structure, now displaced in significance the general schedule for non-British trade. The dumping and valuation clauses in the tariff, most effective protective instruments since 1931, were modified in accordance with treaty promises, and the executive's power to alter the effective rates of duty was substantially limited (1 Edw. VIII, c. 31).[28]

The tariff changes of outstanding importance in 1936 were the downward revision of the farm machinery schedule (7½ per cent under the intermediate classification on all important machines, 5 per cent below the treaty level of 1935); the standardization of the automobile tariff at 17½ per cent for all cars regardless of price; and a complete revision of the cotton textile and rayon schedules. The textile revision consisted principally of removing the specific portion of compound duties under the British preference. The completion of the textile revision was achieved in the following year (1 Geo. VI, c. 26). A comparison of the rates on the principal commodities affected by these revisions with those in effect before is provided in Table 22. Apart from the broadening of the British margin of preference on textile manufactures and certain iron and steel products, and the return to the Liberal policy of nominal duties on farm machinery, the autonomous tariff changes of the period were not significant.

Since the pledges of the Ottawa agreement with Great Britain had been placed on a five-year basis, in 1937 the Liberals could

[28] See next chapter.

review the bargain made by their predecessors in 1932. From the standpoint of tariff bargaining the 1937 agreement was rather a victory for the mother country, though both countries won back a substantial degree of the autonomy conceded at Ottawa (1 Geo. VI, c. 17). The United Kingdom now reserved the right to take eggs, poultry, butter, cheese, and other milk products off the free list as far as Canada was concerned and either subject them to a preferential tariff or bring them under a quota system after consultation with the Canadian government. The rates and conditions surrounding the granting of the British preference remained substantially the same as in 1932; the Dominion was required to supply the British market with a sufficient quantity of favoured goods at the world price level or else forego the preference. Unsweetened milk powder and honey were added to the list of commodities guaranteed a preference by the United Kingdom. Rates of preference were 6*s.* and 7*s.* per pound respectively. Wheat, fruits, base metals, and fish were still permitted free entrance from Canada, and on them the 1932 margin of preference remained.[29] The British margin of preference on Canadian tobacco remained at 2*s.* ½*d.* per pound unless the general duty was reduced below that figure, in which case the preference was to equal the full amount of the duty. Canadian shipments of bacon and ham remained on the free list and the United Kingdom guaranteed there would be no interference with such trade "unless the rate at which the trade progressed towards two and one-half million hundredweight per annum should become abnormal and such as to endanger the effective working of the system of supply regulation." Canadian cattle and beef were guaranteed free entry, and regula-

[29] The United Kingdom agreed to maintain the Ottawa preferences, but again it was provided that the foreign duty on wheat, copper, zinc, and lead might be removed if Empire producers were unwilling or unable to offer these commodities in the United Kingdom at prices not exceeding world prices and in quantities adequate to supply the United Kingdom. In the particular case of lead, on the advice of the Import Duties Advisory Committee, the foreign duty on lead could be recommended for reduction if the price appeared certain of remaining at or above £13 per ton. Other provisions were provided for the safeguarding of United Kingdom consumers against unduly high prices.

tion of entry was not to be tried unless, in the interests of orderly marketing, it became essential.

The principle of a guaranteed margin of preference was retained, though on a smaller list than five years before. Canada guaranteed the British a certain margin on a list of goods when not made in Canada and on another list regardless of Canadian production.[30] If the duty on foreign goods became less than the margin of preference, they were to enter Canada free from Britain. Canada also agreed to limit her preferential duties to a specified level on another list of goods.

In some respects the agreement of 1937 had a different emphasis from that of 1932. In 1932 Canada had promised adherence to the so-called principle of comparative cost of economical and efficient production in fixing new tariff rates. Changes were to be submitted to a tariff board before which Britishers would be heard, and protection was to be given only to those industries with "reasonably sound opportunities of success." Such impractical language did not appear in the 1937 agreement. In 1932 Canada agreed to eliminate as much as possible of the friction which was arising out of the system of arbitrary valuation for duty purposes, and to abolish the exchange dumping duty and other surcharges

[30] The 1937 list of commodities on which Canada extended preferences to the United Kingdom considerably exceeded the 1932 list—salt, many minor manufactured food products, certain types of printed matter, photographic equipment, paint materials, firebrick, certain glass manufactures, antiques, toilet articles, sterling or other silverware, nickel-plated ware. The iron and steel list was extended and further divided to provide lower duties on certain categories of iron and steel sheets, wire goods, etc. All machinery composed wholly or in part of iron and steel of a class not made in Canada was admitted free; certain automobile parts for the use of automobile manufacturers were allowed in free; specialized machinery used for particular purposes was reduced in duty or admitted free, motor buses as well as motor cars were placed on the free list; and an extensive list of automobile parts were placed on the free list; electric motors were charged 15 per cent; telegraphic equipment and a large variety of electrical equipment were added to the free list. The 1937 agreement established a guaranteed margin of preference on many items affected by the 1932 and 1937 agreements: aniline and coal tar dyes, chemicals, and drugs not made in Canada, essential oils, glass in sheets, plate glass, aluminum, machinery not made in Canada, yarns, woven fabrics, anthracite, wrought iron, bars and rods, and many other iron and steel products.

on products from the United Kingdom. No mention of these grievances appears in 1937. The occasion for them had been the depression, deflation, and the collapse of sterling in 1931.

In 1937 each country guaranteed not to levy discriminatory duties against goods imported from the other country, either free or dutiable, or to levy certain maximum duties indicated in the agreements unless the other country imposed similar restrictions first, seemingly a certain bar to such impositions. However, the governments reserved the right to modify the margin of preference if a monopoly or combine in the other country appeared to be using such a privilege to gain an advantage at the expense of the consumers. Since the United Kingdom did not levy a dumping duty on Canadian goods, even if sold in the United Kingdom at less than their selling price in Canada, Canada agreed to exempt particular classes of United Kingdom goods from the dumping duty. This exemption was to be effective only after other attempts to correct the difficulty had failed. In some cases it was anticipated that other goods produced by the industry guilty of dumping would have to be subject to British duties to remedy the evil. Canada agreed to extend to the non-self-governing colonies and mandates certain preferences and not less than most-favoured-nation treatment, provided they did not discriminate against Canadian goods by giving better treatment to another British possession. As the *Economist* observed, the growth of preferences between the Dominions and the colonial Empire, fostered by this type of agreement, was apt to injure trade relations with foreign powers.[31]

The Bennett government had given Germany the intermediate tariff in exchange for most-favoured-nation treatment (P.C. 598, March 31, 1933). In 1937 a new trade agreement of an unusual character was negotiated with Germany. In accordance with that country's policy of bilateral trade balancing, Germany agreed to provide an amount of dollar exchange to pay for Canadian exports to Germany equal to German exports to Canada. This dollar

[31] *Economist*, vol. 126, pp. 513–514, March 6, 1937.

exchange provided by Germany was to be rationed among Canada's exports—35 per cent going to wheat, 8 per cent to asbestos, 5 per cent to apples, and small percentages to cheese, honey, sausage casings, fish, and sawn lumber—up to 63 per cent of the total of German imports from Canada. A maximum amount of imports under each commodity heading was stipulated, and until these maxima were reached the percentages agreed to were to be observed. Germany was thus obliged not only to provide the amount of dollar exchange for buying each of the specified commodities up to a certain amount, but she was obliged to furnish exchange up to the full amount of Canadian imports of German products. Arrangement was made to have legislation passed to give the Canadian government power to revise the value of the German mark for duty purposes. The use of the registered mark for duty purposes at a discount as compared with gold marks was precluded by the terms of the agreement (1 Geo. VI, c. 20).

Following the new trade agreement with the United Kingdom in 1937, and in consideration of the negotiations going on between that country and the United States regarding a prospective trade treaty, it was decided to negotiate a new trade arrangement with the United States in the latter part of 1938. This new treaty became effective in part on January 1, 1939, by order-in-council though it did not receive the assent of Parliament until May 19 of that year (3 Geo. VI, c. 29).

In the 1938 agreement Canada expanded the list of concessions that called for duties below the level of the intermediate tariff. Many agricultural products were added to the list. The rate on fresh fruits and vegetables was reduced from 15 to 10 per cent ad valorem. The mark-up for special value for duty was limited to a specified sum in excess of the invoice price, and in most cases such mark-up was only permissible during certain indicated months of the year. Lettuce, for example, could only be valued for duty at a price four-fifths of a cent per pound higher than the invoice price and then only for 18 weeks during the Canadian lettuce season. The list of commodities receiving special concessions is too long for full treatment. Candy, honey, cigarettes, certain tropical

fruits, a general list of chemicals and drugs, paint materials, certain metal alloys, and electrical supplies and materials were added to the former list. Some important concessions were made in the iron and steel list with respect to bars, rods, sheets, and plates, and also with respect to castings and malleable iron. Many commodities, such as coal and coke, were guaranteed the intermediate tariff or in some cases the free list. Duties on woven cotton fabrics were reduced slightly below the intermediate rates.

Like its predecessor, this most-favoured-nation agreement extended to the signatories all advantages granted or which might be granted to any third countries. Goods listed in the schedules of the agreement were bound at certain specified rates, and the governments agreed not to use special new valuation methods to alter the basis of duty. No unprovided-for quota or special restriction was to apply to the goods mentioned therein. Restriction, however, could be imposed on imports, after consultation with the other signatory, if such restrictions were necessary in connection with a government scheme to regulate or control production—such as the Agricultural Adjustment Act—or if a government plan—such as the National Recovery Act—raised domestic labour costs so that foreign competition was adjudged unfair. This agreement contained the chief-supplier clause. It also had a provision for modification of the agreement in event of currency depreciation to a degree calculated to injure the commerce of the other country. All goods enumerated in Schedule I of the agreement were exempt from the special import excise tax of 3 per cent ad valorem, a privilege previously enjoyed by countries entitled to the British preference.[32]

As compared with 1935 the list of commodities on which Canada received concessions was extended and the articles elaborated. Building material such as brick and cement, certain iron and steel products, aluminum, certain metallic minerals and their alloys, and a substantial list of manufactured lumber products received a lower duty ranging down to 5 per cent ad valorem under the

[32] In 1939 this tax was taken off all imports entering Canada at rates more favourable than the general tariff.

terms of this agreement. Swine came in at 1 cent per pound, and pork at 1¾ cents per pound. Whole milk received a lower duty of 3¼ cents per gallon up to a quota of 3,000,000 gallons, and cream of 28.3 cents per gallon up to a quota of 1,500,000 gallons. After the quotas were reached, the rates on any excess were double the quota rates. The same principle was applied to the duties on cattle which enjoyed a rate of 1½ cents up to a certain quota and 3 cents per head on shipments in excess of the quota. In the 1935 agreement the quota had been set at a certain fraction of domestic consumption, but now it became a stipulated number of units of the products. A list of fish products was added to the new agreement and a tariff quota arrangement was set up to govern their entry. Paper products, fox furs, gloves, hose, tubing, and drugs of animal origin were also added to the list.

The rather extensive tariff adjustments under the 1938 agreement were attacked by the Conservatives on the ground that they tended to drive branch plants from Canada. The automobile industry was cited as a case in point. The Studebaker Company withdrew from Canadian production and Hudson-Essex extensively curtailed its output after the tariff reduction to 17½ per cent ad valorem in 1937. Quoting the tariff commission's findings, the Conservative party spokesman, Mr. Lawson, said that whereas the protection to this industry meant that automobiles cost $14,000,000 more to the Canadian consumer, the industry disbursed from $40,000,000 to $47,000,000 to Canadian labour and material producers.[33] If such an argument were valid one might assume that the higher the costs of production (the more the industry disbursed), the more desirable the industry would be, regardless of the protection required to maintain it in Canada.

The Conservative party maintained its adherence to protection and a diversified economy. At the National Conservative Party convention of July 1938 the convention went on record:

This convention is convinced that the permanent interests of Canada are best conserved by enlarging our markets in the United Kingdom

[33] *Debates*, 1939, pp. 3349–3350.

and in other British dominions, whose products are more complementary than competitive with those of this country, and with which our trade agreements are more likely to be durable and beneficial. . . . This convention believes that the external trade of Canada may also be increased advantageously by the negotiation, on a fair and equitable basis, of trade agreements with countries which are outside of the British Empire, but that in negotiations with foreign countries, the terms agreed upon should not be such as to impair the benefits derived by Canada under existing agreements between Canada and the United Kingdom and between Canada and other British dominions.[34]

It was at the supposed endangering of the British preference system that most of the criticism of the 1938 agreement was directed. The Conservatives feared the loss both of the British preference on wheat, which had been given up to make the United States–British agreement possible, and the consent to seasonal reduction of the British preference on canned apples, honey, chilled or frozen salmon, certain timber, and patent leather. The United Kingdom and the Union of South Africa consented to modification of preferences guaranteed to them by Canada in the interests of the Canadian–United States agreement of 1938.

In 1939 the 3 per cent excise tax was virtually abolished. In 1935 it had been removed from all goods subject to Schedule I of the United States agreement of that year. Now it was to apply only to the insignificant volume of imports still coming in under the general tariff. New duties of 5 per cent were placed on tin in blocks, pigs, and bars, and on crude rubber from non-British sources; British Empire rubber remained free (3 Geo. VI, c. 41). The government reassured itself with the observation that most of these vital commodities were of Empire origin in any event and that loss of supply was not a consideration. Duties of 7½ per cent, 15 per cent, and 25 per cent were placed on copper alloys, and 5 per cent, 12½ per cent, and 25 per cent on magnesium alloys. Drawbacks of 50 per cent of bituminous coal duties were paid when the coal was converted into coke for sale. If 35 per

[34] *Debates,* 1939, p. 1050.

TABLE 22

TARIFF CHANGES, 1924–1937

| ARTICLE | October 1937 | | | August 1931 | | July 1924 | |
|---|---|---|---|---|---|---|---|
| | Br Pref | Intermed. | Gen. Tar. | Br Pref. | Gen Tar | Br Pref. | Gen Tar. |
| Iron, wrought or puddled.... | Free | Free | Free | $1 50 a ton | $2 50 a ton | $1.50 a ton | $2 50 a ton |
| Iron and steel forgings ..... | Free | 27½% | 30% | 20% | 30% | 20% | 30% |
| Iron and steel angles........ | 20% | 35% | 40% | 25% | 40% | $2 00 per ton | $3 00 per ton |
| Pipe, cast iron and steel..... | $5.00 a ton | $12.00 a ton | $14.00 a ton | $5.00 a ton | $10 00 a ton | 20% | 30% |
| Tin-plate................. | 15% | 27½% | 30% | 20% | 30% | free | 5% |
| Copper rods............... | free | 25¢ a pound | 50¢ a pound | free | 50¢ a pound | free | free |
| Wire, n.o p... ............. | 10% | 30% | 35% | 10% | 30% | 10% | 30% |
| Machinery, not made in Canada. .................. | free | 27½% | 35% | free | free | free | free |
| Machinery, iron and steel, n.o.p.. ...... .. ....... | 10% | 27½% | 35% | 15% | 35% | 20% | 35% |
| Cotton fabrics, printed...... | 20% | 27½% & 3½¢ a lb. | 32½% & 4¢ a lb. | 22½% & 3¢ a lb. | 32½% & 4¢ a lb. | 22½% | 32½% |
| Clothing, cotton, n.o.p....... | 25% | 30% | 35½% & 4¢ a lb. | 25% & 3¢ a lb. | 35% & 4¢ a lb. | 25% | 35% |
| Wool yarn................. | 10% & 5¢ a lb. | 17½% & 15¢ a lb. | 20% & 17½¢ a lb. | 10% & 10¢ a lb. | 20% & 17½¢ a lb. | 20% | 30% |
| Coffee, green.............. | free | 3¢ a lb. | 5¢ a lb. | free | 3¢ a lb. | 2¼¢ a lb. | 3¢ a lb. |
| Tea...................... | 4¢ a lb. | 8¢ a lb. | 8¢ a lb. | 4¢ a lb. | 8¢ a lb. | 7¢ a lb. | 10¢ a lb. |
| Wheat flour ..... ....... | free | 50¢ a bbl. | $1.35 a bbl. | free | $1 35 a bbl. | free | free |
| Manufactured tobacco...... | 75¢ a lb. | 90¢ a lb. | 90¢ a lb | 75¢ a lb. | 90¢ a lb. | 90¢ a lb. | 90¢ a lb. |
| Coal, anthracite .... . | free | 50¢ a ton | 50¢ a ton | free | 40¢ a ton | free | free |

TABLE 22 (Continued)

| Article | October 1937 | | | August 1931 | | July 1924 | |
|---|---|---|---|---|---|---|---|
| | Br. Pref. | Intermed. | Gen. Tar. | Br Pref. | Gen. Tar. | Br. Pref. | Gen. Tar. |
| Boots and shoes . . . . . | 15% | 25% | 25% | 15% | 25% | 17½% | 30% |
| Manufactures of glass....... | 10% | 20% | 22½% | 10% | 22½% | 22½% | 32½% |
| Coal mining machinery...... | free | 10% | 12½% | 7½% | 12½% | free | free |
| Knitted goods.............. | 20% | 35½% & 25¢ a lb. | 45% & 30¢ a lb. | 25% | 45% | 20% | 35% |
| Cattle, live................ | free | 2¢ a lb. | 3¢ a lb. | free | 3¢ a lb. | free | free |
| Hogs, live..... ........... | free | 1¼¢ a lb. | 2¢ a lb. | free | 3¢ a lb. | free | free |
| Butter....... ... .. ..... | 8¢ a lb | 12¢ a lb. | 14¢ a lb. | 8¢ a lb | 14¢ a lb. | 3¢ a lb. | 4¢ a lb. |

cent of the coke used was of Canadian origin the drawback on import duties was 99 per cent. This was made retroactive, applying to coal imported on or after March 23, 1935.

Like all other sides of economic life, the tariff history of Canada in the thirties was eventful and controversial. The agreement negotiated at Ottawa in 1932 and that signed in Washington in November 1935 represented antithetical trade philosophies, though before the end of the decade compromise was effected in the Anglo-American and new Canadian-American agreements of 1938.

The decade of the 1930's began on a note of tariff retaliation against the exclusionist policies of the Washington government, and desire for wider British preferences. The temperate proposals of the Dunning budget were soon replaced by a schedule of duties frankly aimed at limiting imports to goods in no wise competitive with Canadian industry. The emphasis of policy changed from regarding the tariff as a bargaining device to gain concessions for exports abroad to employing it as an instrument for stimulating investment and employment in the depressed Canadian economy. The principle of selective protection, sponsored by both parties since 1879, was, in 1930–31, to a substantial degree superseded by all-out protection to all industries capable of producing in the Dominion.

The Ottawa agreements, while reducing some duties on British and Empire goods, were negative rather than positive in result as for the most part Empire preferences were obtained by denying entrance to foreigners rather than by reducing the level of intra-Empire tariffs. The principle of imperial *Zollverein* was not accepted at Ottawa. Canadian commercial treaties with Poland, France, and other foreign states were renegotiated after Ottawa on a basis of narrower concessions than granted in the agreements modelled on the French Convention of 1923.

The trend towards ultra protectionism, which was implemented both by discriminatory increases in duties and by administrative action under the dumping and valuation clauses in the tariff, was broken by the *rapprochement* with the United States in the trade

agreements of 1935 and 1938. Of greatest interest in these agreements were the introduction of the quota system into Canadian–United States trade, the placing of that trade on a reciprocal most-favoured-nation basis, and the modifications effected in tariff administration in Canada. The administrative features of tariff policy will be reviewed in the next chapter.

# CHAPTER XIII

## TARIFF ADMINISTRATION—A PROTECTIVE WEAPON

THE POWER to fix and alter customs duties is inherently a legislative function. It was claimed as such by the earliest popular assemblies in British North America. During the decade of the 1930's, however, and especially from 1930 to 1935, the effective level of the tariff was perhaps as much subject to executive and administrative as to legislative control despite the significant treaty and autonomous legislative changes of the period. Tariff-making by "administration" was perhaps carried further in Canada at this time than in any other country. This is not to imply, however, that the executive had had no tariff-making power before 1930.

Special enactments, such as the anti-monopoly sections of the acts of 1887 and 1897 and the dumping clause in the tariff of 1904, had bestowed rate-changing powers on the executive. In 1883 the governor-in-council was empowered to transfer to the free list for a determinable period any or all articles, whether natural products or manufactures, used as materials in Canadian manufactures, or to grant a drawback on such goods.[1] After 1903 the executive could reduce duties on such commodities by any amount by order-in-council.[2] Furthermore, the intermediate tariff has been extended to several countries by order-in-council without recourse to Parliament. After September 1930, however, through the exercise of new powers related to valuation—by levying

[1] 46 Vict., c. 12, s. 230, para. 12; and 3 Edw. VII, c. 14.

[2] Coal tar for manufacture of coal tar dyes (1907), rare metallic elements and chemicals for special uses such as photography, abrasive materials, copper materials for electrical appliances, engines for motor trucks (1926), and special textile products (mostly about 1928) are the more important items which have been reduced in duty or placed on the free list by order-in-council.

special dumping duties, and by making administrative rulings on commodity classifications—new and subtle impediments were placed in the path of imports to Canada without recourse to legislative approval. The crucial question of valuation will be discussed first, for Canada's extensive use of ad valorem duties has made this a matter of great importance.

In 1856 the province of Canada adopted the American practice of defining value for duty as the fair market value of imported goods when sold for home consumption at the port of export.[3] This basic principle of valuation has been retained ever since with minor variations, the most important of which have been noted in previous chapters. Since Confederation, instead of "port of export," the "principal markets of the exporting country" have been used as the locale for determining "fair market value." The problem of properly defining "fair market value" under all circumstances has indeed plagued the customs department and taxed the ingenuity of Parliament. The latter has come to designate all values for duty as "fair market value" however arrived at.

After the Conservatives attained office in 1930 they began at once to implement their protective policy by tightening up on customs administration. By section 36 of the Customs Act (R.S., 1927, c. 42) value for duty had been defined as "fair market value in the usual and ordinary commercial acceptance of the term." Cash discounts not in excess of 2½ per cent were deductible for valuation providing they were actually credited to the importer in his invoice. This discount allowance was repealed in September 1930. A new criterion, namely, cost of production, was then inserted in valuation procedure. Parliament decreed (a) that the value for duty must be at least the equivalent "of the price charged jobbers and wholesalers generally at the time and place of direct shipment to Canada" and (b) that "the value for duty

[3] Britain has based her ad valorem duties on the value of imported goods at the point of import including carrying charges thereto Thus, *ceteris paribus*, a British ad valorem duty of 20 per cent is higher than a Canadian rate of equivalent percentage by 20 per cent of carrying charges from the exporting country.

of new or unused goods shall in no case be less than the actual cost of production of similar goods . . . plus a reasonable advance for selling cost and profit" (21 Geo. V, c. 2). The amount of "reasonable profit" was left to the sole discretion of the minister of customs, the first of his broad new powers over the effective rate of duty.[4] This section of the act has not undergone any vital alteration to the present time.

In June 1934 the relatively innocuous provision requiring the value for duty to be at least as high as that charged jobbers and wholesalers in the exporting country was repealed (24–25 Geo. V, c. 48, s. 1). In June 1936 the margin of profit to be included in the value for duty was defined as an advance "not to be greater than that which . . . is added in the case of goods similar to the particular goods under consideration . . . when sold for home consumption" in the country of export (1 Edw. VIII, c. 19).

The burden that this "cost of production" basis for import valuation places on customs officials is, of course, a heavy one. Commenting upon this responsibility in the Report of the Royal Commission on the Textile Industry, Justice Turgeon said:

> The officials of the Customs service are no doubt faced with serious difficulties in determining the cost of production for individual firms in a foreign country. The evidence submitted to me . . . shows that such cost can only be approximated, and then only through the use of certain accounting methods and the setting up of certain standards, sometimes of doubtful accuracy and application.[5]

Before September 1930, section 37 of the Customs Act had provided that:

> If any difficulty arises in determining fair market value . . . the prices are fixed by [foreign] manufactures . . . the Governor in Council may . . . determine . . . a certain rate of [dealer] discount to be applied to such published prices. . . .

[4] Similar powers had been given to the minister in 1921 (11–12 Geo. V, c. 26, s. 7) but repealed in 1922 (12–13 Geo. V, c. 18, s. 1).

[5] *Report of Royal Commission on the Textile Industry,* p. 70.

This section was changed in 1930 so that, whenever the prices at which imports were sold in Canada were published or listed, the governor-in-council was empowered to "fix and determine a certain rate of discount which may be applied to such published or listed prices." "Published or listed prices," less such discounts, were to be taken as fair market value (21 Geo. V, c. 2). This discount feature was further elaborated by a provision (Sec. 38, Subsec. 6), which said that no discount could be allowed in Canada in estimating value for duty that was not allowed in the country of export in the usual and ordinary course of trade (21–22 Geo. V, c. 29). American exporters, particularly automobile manufacturers, felt the limitations of this "fixed dealer discount" clause severely. Those of the latter who did not have Canadian branches lost sales because they were only allowed to give their Canadian dealers a 20 per cent discount off factory list prices, as compared with the 25 and 30 per cent discounts received by dealers in the United States. After the matter was raised during negotiations over the Canadian-American Agreement of 1935 the section was repealed in June 1936 (1 Edw. VIII, c. 19).

Since the real teeth have been put into the valuation clauses of the Customs Act by supplements and amendments to the dumping clause, recent changes in that provision deserve careful examination. Prior to 1930 the dumping clause of the tariff had not been much changed, in principle, since its adoption in 1904. It had not, indeed, proved very effective in keeping out American goods, at which it had been principally aimed. When prices were low on both sides of the border it could do little to restrict imports, as it applied only when goods were sold in Canada below their price in the country of export. The Bennett government's addition to anti-dumping legislation had a twofold purpose. First, it was calculated to establish a basis for using administrative action to raise actual duties against dumped products, and secondly it was intended to make dumping virtually impossible by levying a dumping duty equal to the difference between the value so determined and the selling price of the goods to the Canadian importer.

In 1922, as a step toward more effective control of seasonal dumping, the governor-in-council had been given the power to order the minister of customs to evaluate imports of natural products that were reported to be injurious to Canadian producers "without regard to their value in the country of export to Canada" (12–13 Geo. V, c. 18). The intention was to raise actual duties by raising the base upon which they were imposed. The new administration in 1930 extended this clause to include all imports whether natural products or manufactured goods (21 Geo. V, c. 2). In September 1930 the dumping provisions were extended in several other respects (21 Geo. V, c. 3). Special dumping duties were imposed if import prices were lower than value for duty as calculated by any of the several criteria then established. These criteria were: (1) cost of production plus reasonable profit, (2) list or published price less discount as determined by the governor-in-council, (3) prices as determined by the minister where they could not be readily ascertained,[6] (4) valuation by the minister when interests of Canadian producers were injuriously affected by low-priced imports. The dumping duty was equal to the difference between dutiable value, as determined by the above bench marks, and the selling price of imported goods, ex-duty, to the Canadian importer. It applied to free, as well as to dutiable goods, and to imports sold directly to consumers and to goods assembled in Canada. The special dumping duty was not to exceed 50 per cent (15 per cent for certain goods entering under trade agreements).[7]

The implication of this new conception of the potentialities of "dumping" duties is clear. The power of the executive to fix prices at which imports could be sold in Canada was practically unlimited. Neither prices in the markets of the exporting nation nor even costs of producing imported goods, but rather the de-

[6] Examples of such goods are: partially manufactured products (automobile parts) sent to Canada for assembly, leased goods, goods used in Canada on a royalty basis, etc. Under section 41 of the Customs Act, the minister was empowered to value such goods for duty.

[7] Goods subject to the Excise Act and goods sold under discriminatory or restricted conditions in Canada were exempt from the special dumping duty.

cision of the minister of customs and his civil service advisers became the final arbiter of "fair market value."

Criticism soon arose from Canadian importers and consumers, as well as from export interests in Empire and foreign countries. This criticism was met by exempting British goods from the principal penalties of the legislation. In 1931 the governor-in-council was authorized to disregard excise taxes and duties levied by exporting countries by designating the cost of production of imports to be used as a basis of valuation, providing the goods came from a country entitled to a tariff rate lower than the general tariff (21–22 Geo. V, c. 30). As a result of the Ottawa conference, the minister of customs was no longer empowered to place fixed valuations on goods on the British preference or lower lists under section 43 of the Customs Act [8] (23–24 Geo. V, c. 7).

The United States felt justly aggrieved at this discriminatory policy, especially when it was viewed in combination with the extension of the British preference resulting from the Ottawa conference. Prior to the trade agreement of 1935 Canada was black listed by the United States customs authorities and denied most-favoured-nation treatment under the Hull program. In 1934, as a concession to the United States, the governor-in-council was given the power to order that excise duties and taxes of the exporting country might be disregarded in determining value for duty for any country, thus extending to all the privileges given Britain in 1931 (24–25 Geo. V, c. 48).

With the first United States–Canada trade agreement the Liberal administration was committed to modifying the valuation and

[8] This led to a long dispute over the validity of continued applicability of valuations imposed prior to the passage of this act The department of national revenue continued to apply fixed valuations already made to British goods. Appeal was made to the tariff board which ruled against the department. The Supreme Court, however, denied that the board had power to reverse departmental decisions. (Provision was made for such appeals to the tariff commission in 1936 by 1 Edw. VIII, c. 19, s 6.) The matter was taken to the Exchequer Court by the importers, and that body ordered refunds to be made for special duties collected after the act was passed. By act of Parliament in 1937, the government protected itself against such charges by confirming all valuations theretofore made regardless of any errors, omissions, or lack of power involved.

dumping duty policy of its predecessor. The application of the special duty to fruits and vegetables during the period of peak production in Canada and low prices in the United States had been one of the principal uses of the duties. Canada now promised that the special duties would be applied only to a limited list of items in the fruit and vegetable schedule and in no case should any value so established (under section 43) exceed the invoice value by more than 80 per centum of the lowest advance imposed on like goods under the authority of the section during the calendar years 1933 to 1935, inclusive. Section 43 was also amended to provide for review of department valuations by the tariff commission in a public inquiry. If the commission found that no fixed value was needed to protect Canadian industry or that a lower one was adequate, the findings of the commission became at once effective. If no findings were reported by the commission after a period of three months, the fixed valuations of the department were to lapse (1 Edw. VIII, c. 19, s. 6).

The Department of Customs and Excise did not develop any uniform principle of valuation during the years prior to 1936 when its powers were not limited by the right of appeal. The valuation clauses were, of course, protective devices of special potency in periods of deep depression. The declared value of imports was usually still considered as the basis for arriving at "fair market value"; a varying amount or a certain percentage was added thereto by the minister to arrive at "value for duty." In some cases, however, the price level of the commodity in the Canadian market was taken as the value for duty, thus abandoning the traditional method of valuation entirely. The "economic position of the domestic producer" might justify quite different methods from time to time and from one commodity to another. For the importers, perhaps the greatest cause of complaint about the system was the uncertain position in which they were placed, not being able to tell beforehand just what the effective rate of duty on any given importation would be.

Since the period of chaotic foreign exchanges following 1919, Canada has had legislation aimed at protecting domestic sellers

against so-called exchange dumping. This has, of course, been based on the theory that, owing to speculative and psychological factors, the decline of the foreign exchange value of a currency off the gold standard will usually be more rapid than any compensating rise of internal prices and costs of production in the exporting country. This situation gives the foreign producer of Canadian imports a twofold advantage. First, it results in the familiar export bounty "enjoyed" by paper standard or flexible exchange countries in the earlier stages of currency depreciation. Second, since Canada has ordinarily valued her imports for duty by converting their prices in foreign currencies into dollars at current exchange rates, the fact that the rise in such prices lags behind the fall in the currency in which they are expressed actually reduces the effective level of Canadian ad valorem duties in terms of Canadian currency.

Taking cognizance of the latter point, Parliament amended the Customs Act in the chaotic exchange period of 1921 as follows: "In computing the value for duty of the currency of an invoice, no reduction shall be allowed in excess of fifty per cent of the value of the standard or proclaimed currency of the country from whence the goods are invoiced to Canada, irrespective of the rate of exchange between such country and Canada . . ."[9] If, however, the foreign currency had appreciated in terms of the dollar, the current rate of exchange was used without limitation. No self-imposed restriction was placed on the added protection Canadian industry might hope to enjoy from depreciation of the Canadian dollar in terms of other currencies.

After the British pound regained its pre-war relation to the Canadian dollar in 1926, Canada valued goods consigned from European countries which were still off the gold standard at British prices converted at par into Canadian funds (R.S., 1927, c. 42, s. 35).[10] As an alternative the minister of customs could

[9] 11–12 Geo. V, c. 26, s. 8.

[10] "In the case of importations of goods the manufacture or produce of a foreign country, the currency of which is substantially depreciated, the value for duty shall not be less than the value that would be placed on similar goods manufactured

determine the value of such goods for duty purposes. These provisions are still an inherent part of the principal valuation section of the Customs Act.

New problems were posed for Canada when the pound itself depreciated after the departure from the gold standard in September 1931. The threat of exchange dumping from Britain now had to be considered, and furthermore prices in Britain no longer could serve as a basis for evaluating foreign imports into Canada. Under section 55 of the Customs Act, the governor-in-council had been empowered to determine the rate of exchange to be used in valuing imports for duty. On October 10, 1931 (effective as of September 1, 1931), it was provided that if the selling price of imported goods in Canada was less than the invoice price of the goods in the foreign currency converted at the designated rate, a dumping duty equal to the difference could be applied.[11]

As of September 29, 1931 the rate of exchange between the pound and the dollar was frozen at the old parity for purposes of evaluating British goods for duty.[12] On September 30 a dumping duty was imposed on British goods in accordance with this general policy (P.C. 2428). It is clear that these Canadian regulations resulted in a special penalty against British goods as soon as relative prices and costs in the two countries felt the impact of the actual change in the exchange rate. On October 23, 1931 the Canadian government took cognizance of the rise in sterling prices and costs of production relative to the falling Canadian price level and revalued the pound at $4.40 for duty purposes

or produced in Great Britain and imported from that country, if such similar goods are made or produced there." (Sec. 35, sub. 2.) "If similar goods are not made or produced in Great Britain, the value for duty shall not be less than the value of similar goods made or produced in any European country the currency of which is not substantially depreciated." (Sec. 35, sub. 3 ) "The Minister may determine the value of such goods, and the value so determined shall, until otherwise provided, be the value upon which the duty on such goods shall be computed and levied under regulations prescribed by the Minister." (Sec. 35, sub. 4.) These three sections were added in 1922 by 12–13 Geo. V, c. 18, s. 2.

[11] P.C. 2549, confirmed by 23–24 Geo. V, c. 37, s. 1, which was made retroactive to September 1, 1931.

[12] P.C. 2415.

(P.C. 2674). This also reduced the exchange dumping duty to the difference between the dollar amount of the English price of imports with a $4.40 pound, and the invoice price of such goods to Canadian importers. Thereafter when the invoice was quoted in terms of British pounds they were converted into dollars at the average current exchange rate announced by the minister on the first and sixteenth of each month. On March 22, 1933, the pound was for valuation purposes reduced to $4.25 (P.C. 543). Unless the British goods were able to qualify under the Empire content provisions of the tariff described below, however, the official value of the pound remained at $4.86.[13] The British registered considerable protest against the exchange dumping duties at Ottawa in 1932. The decline in the gold value of the Canadian dollar itself made this issue relatively less important however. *The Report of the Royal Commission on the Textile Industry* summarized the case as follows:

> the power given to the Governor-in-Council to fix rates of exchange is one which might be used to provide an undue measure of protection to Canadian industries, especially when the high exchange parity is maintained after costs of production in the exporting country have risen, in proportion to, or nearly to, the extent of the depreciation in the national currency.[14]

Foreign countries with greatly depreciated currencies perhaps had more to complain of than Great Britain: "in the case of Japan . . . a proclaimed rate of 49.85¢ (the gold parity of the yen) was maintained from December, 1931, to August, 1935." [15]

Points of lesser importance which have contributed to Canadian protectionism are content requirements and drawback regulations. Shortly after the British preference was adopted by

[13] Judging from relative price changes in Canada and Britain during the depreciation period, the Canadian policy of keeping the official value of the pound (value for duty) somewhat above the current exchange rate somewhat more than offset the so-called export bounty which depreciation was expected to give to British exporters.

[14] Page 76.

[15] *Report of Royal Commission on the Textile Industry,* p. 76.

Canada in 1897, regulations guarding against their abuse were introduced. In 1898, when the preference became purely British in scope, it was required that 25 per cent of the value of the article claiming preference must have been added by labour applied in a British country, or countries, since value added in several British countries might be cumulated to meet the required standard (61 Vict., c. 37). A similar content requirement was later required for goods from countries entitled to the intermediate tariff (P.C. 2525, December 17, 1909).

At the imperial conference in 1923 the various constituent costs which could be considered in computing Empire content were designated.[16] In 1926 the Empire content became 50 per cent. This, it was thought, would exclude goods produced with the "low paid" labour of Europe and the Orient and only finished in England, and would also encourage secondary as well as primary industries in the Empire. A uniform rule for all products cannot, of course, be entirely satisfactory. High quality products manufactured in England but containing expensive raw materials of foreign origin have frequently been unable to meet the 50 per cent qualification. Rapid fluctuation in prices of such raw material may change the eligibility of a product within a comparatively short time. Canada, unlike Australia, has not graded her tariff rates according to the degree of Empire content of imported goods.[17] The widespread application of the 50 per cent content requirement to most-favoured-nations, as well as British countries, seems to have aroused little adverse comment.

A more important problem, and one of considerable administrative difficulty, has centred around the policy of giving draw-

[16] Great Britain, *Parliamentary Papers*, 1924, vol. X, Cd. 2009, pp. 271–273. Costs of which (in the case of Canada) 25 per cent had to be of Empire origin for goods to qualify for preference were as follows: (a) the costs of materials as received into the factory but not including customs or excise or other duty paid or payable in respect to such materials; (b) manufacturing wages; (c) factory overhead; (d) inside packing containers. Outside containers and the expenses of packing thereinto, manufacturers' or exporters' profit or brokerage royalties, etc., and other charges incurred subsequent to the manufacture of the goods were not to be included.

[17] Ref. to Australian tariff on automobiles.

backs of duties paid on imported raw and semi-manufactured materials conditional on the Canadian content of the finished product. Drawbacks, usually 99 per cent of the duties, are of course paid on re-export of materials whether or not they have been further processed in Canada.[18] This widely followed practice, while causing administrative difficulties in connection with segregating imported raw materials in the manufacturing process, has not been the cause of important controversy.

A quite distinctive type of drawback is also used more explicitly to encourage production for domestic consumption. Canada has customarily followed the practice of allowing certain raw materials for specified industries free entry or a tariff much lower than normal rates. Iron and steel for farm machinery production are a case in point. This has been done either by establishing differential duties in Schedule A or providing a special drawback under Schedule B of the tariff.[19] In order to qualify for such drawback the Canadian firm importing the material must meet the requirement that a certain percentage (usually 50 per cent) of the value of its finished product is of Canadian origin. The rates of drawback in Schedule B range from 25 per cent upward. Similar in effect is the power given the governor-in-council under section 286 of the Customs Act. Under this authority duties may be reduced or goods may be placed on the free list if imported for specific uses, mostly for industrial purposes.

[18] R.S., 1927, c. 42, s. 286, "The Governor-in-Council may, under regulations made for that purpose, allow, on the exportation of goods which have been imported into Canada and on which a duty of Customs has been paid, a drawback equal to the duty so paid with such deductions therefrom as is provided in such regulations." Further, "When imported materials on which duties have been paid are used, wrought into or attached to any articles manufactured or produced in Canada, there may be allowed, on exportation of such articles beyond the limits of Canada, a drawback of 99 per cent of the duties paid on the materials used, wrought into or attached to the articles exported."

[19] Customs Tariff Act, R.S., 1927, c. 44, s. 13. "On the materials set forth in Schedule B of this Act when used in Canada for the purposes set forth in that Schedule (manufacturing commodities for domestic consumption) there may be paid, out of the Consolidated Revenue Fund, the several rates of drawback of Customs duties set opposite each item respectively, in that Schedule, under regulations by the Governor in Council."

A frequent source of complaint about the wide discretionary valuation powers vested in the executive and administrative branches of the government was the lack of opportunity for appeal, outside the Department of National Revenue, to the tariff commission. In 1936 the functions of the commission were broadened to meet this requirement: The delegation of responsibility to so-called expert tariff-makers has been carried far in the last decade. Prior to 1926 the Canadian government was accustomed to delegate to responsible cabinet members the task of ascertaining public interest in proposed tariff changes. A group of three or more ministers would tour the country to gauge representative opinion before major changes were undertaken. Such impromptu commissions under the leadership of the finance minister of the day had solicited opinion in 1893, 1905, and again in 1921. Little by way of detailed analysis of specific items could be expected from such methods. The real work of tariff-making was done, as much of it still is, in the Department of Finance. An effort was made in 1912 to establish a permanent tariff board, but the bill failed in the Senate.

In 1926, however, the Liberal government set up the Advisory Board on Tariff and Taxation with the function of making studies of the industrial consequences of past and prospective tariff changes. The findings of this board on iron and steel, textiles, and automobiles are discussed elsewhere. The functions of the board, insofar as the tariff is concerned, were confined to receiving briefs from interested parties, hearing evidence, and making investigations at the request of the minister of finance to whom its findings were reported. Reclassification of commodities on the tariff schedule, and tariff rates were its concern. Appeals from administrative rulings, appraisals, etc., were not taken to the advisory board. The board of customs, established in 1927, handled all matters of that kind (17 Geo. V, c. 50).[20] When the Conservatives

[20] The Board of Customs consisted of commissioners of customs, excise, and income tax, the assistant commissioner of customs and such other officers of customs and excise as the governor-in-council might select. Its principal task was to pass on the proper classification of imports where doubt existed as to what category they belonged in. Appeal from the board could be carried to the governor-in-council.

took office, the advisory board was disbanded. The principal results of its work appeared in the tariff changes of 1929 and in the Dunning budget of 1930.

The present tariff commission was established under act of Parliament in August 1931 (21–22 Geo. V, c. 55). It took over the functions of the board of customs and also obtained powers somewhat more far-reaching than those of the advisory board on tariff and taxation. It consists of three members appointed for ten-year terms and eligible for re-appointment. The members cannot run for election to the House of Commons until two years after their service with the board. The economic functions of the board, as stipulated in the act, give it wide scope as a fact-finding body concerned principally with the securing of evidence relating to a certain industry and summarily reporting thereon to the responsible minister. Section 4, subsection 1, of the act provides that:

> In respect of goods produced in or imported into Canada, the Board shall at the request of the Minister [of Finance] make inquiry as to: (a) the price and cost of raw materials in Canada and elsewhere and the cost of transportation thereof from the place of production to the place of use or consumption; (b) the cost of efficient production in Canada and elsewhere and what increases or decreases in rates of duty are required to equalize differences in the cost of efficient production; (c) the cost, efficiency, and conditions of labour, including the health of employees, in Canada and elsewhere; (d) the prices received by producers, manufacturers, wholesale dealers, retailers, and other distributors in Canada and elsewhere; (e) all conditions and factors which affect or enter into the cost of production and the price to the consumers in Canada; (f) generally, all conditions affecting production, manufacture, cost and price in Canada as compared with other countries.

As for its legal functions, the act of 1931 gave the tariff commission the investigatory powers of the Exchequer Court and of the registrar of the Combines Investigation Act, to inquire into combinations among suppliers of protected goods calculated to

enhance prices or to restrain trade.[21] The old proviso for the use of the tariff as a means of breaking up combines on the domestic market in protected commodities led to the association of the functions of the commission with those of the administrators of the Combines Investigation Act, the federal instrument for control of monopoly and unfair trade practices. The subjects for inquiry by the board may be enlarged by direction from the responsible minister of the department concerned or from the governor-in-council.[22]

A useful summary of Canadian tariff administration may be made by comparing significant features of Canadian practice with those employed by the United States. Methods of tariff administration employed in Washington have been calculated to entirely eliminate undesired imports under the dumping clause of the tariff and under the special provisions for the control of imports under certain legislation (import clause of N.R.A. now invalidated). In Ottawa, on the other hand, restriction and control rather than 100 per cent elimination of "harmful imports" has been the objective of the tariff authority. Canada, however, has gone much further than the United States in the suppression of dumping practices by executive fiat. In the United States, appeal from the decision of an appraiser is to the Customs Court, a judicial body. In Canada, the Canadian tariff board has taken over the functions of the Customs Court. This gives the tariff board a legal, as well as an economic, function, as quite often the question in dispute is one having to do with the classification of goods and the interpretation of the law. The United States has not acted against countries having depreciated currencies by levying exchange dumping duties as Canada has done. The United States customs authority has insisted that proof of injury to an

[21] R.C.S. 1927, c. 26.

[22] The commission has been delegated the power of conducting a public inquiry to ascertain what value for duty and for imports is required to prevent such imports from "prejudicially or injuriously affecting the interests of Canadian producers or manufacturers" (1 Edward VIII, c. 19, sec. 6). This power is used in cases of appeal from the Customs Department entrusted with the administration of anti-dumping legislation.

entire industry be established before the prohibition decree of the dumping clause of the tariff is made effective. In Canada there has not been such reluctance to use the dumping clause of the Customs Act.

The economic function of the United States tariff commission is defined and somewhat limited by Congressional pre-occupation with making the tariff adequately high to balance the difference between foreign and domestic costs of production. The commission has been zealous and aggressive in the use of cost accounting devices in connection with its primary fact-finding function of determining differences between foreign and domestic costs, as far as domestic selling prices and costs of production are concerned. If any principle has been important for the *modus operandi* of the Canadian tariff authority, it has been short-run expediency with some eye to the apparent economic value of an industry to the national economy. Number of laborers employed and complementariness to the rest of the industrial economy are criteria of economic worth which have weighed heavily in the reports of the Canadian tariff commission.

In the next chapter some of the economic results of the administrative protectionism discussed in this chapter will be reviewed. Anti-dumping enforcement by the customs department and arbitrary valuation on imported goods for duty purposes were outstanding adjuncts to the high tariff of the period 1930–1935. The discriminatory nature of the imports established under these executive actions, particularly after the British won substantial exemption at the Ottawa conference, placed a severe strain on Canada's foreign commercial relations. They were, however, very effective in preserving the Canadian market for home industry during the period of deepest depression.

# CHAPTER XIV

## PROTECTION AND INDUSTRIAL MATURITY

New technological developments, population shifts, and investment opportunities combined to make the first fourteen years of the twentieth century the most dynamic and prosperous peacetime period in Canadian history. Comparatively speaking, the subsequent interbellum period was one of consolidation of industrial progress. It is not to be inferred that the apogee of economic development was reached in the 1920's; indeed, war output in 1943 was far above the peacetime production of that decade. However, with the capital expansion from 1900 to 1914, supplemented by the integration and diversification of the war years, 1914 to 1918, the small-scale and largely local enterprises which the National Policy was designed to protect had, by 1920, been replaced by mass production and centralization in most industries.

Protection applied to this maturer industrial economy could no longer be logically supported by the "infant industry" argument alone. When manufacturers presented their cases before the advisory board on tariff and taxation in 1929 and 1930, pleas for safeguarding of Canadian labour standards and for protection of capital invested in established industries were the principal arguments employed. In fact, all through the 1920's even the strongest supporters of protection did not associate higher tariffs with an expanding domestic economy as had the original proponents of the National Policy. This change of emphasis was in part responsible for the general weakening of the protectionist case after 1920, and the political success of the lower tariffs of the Liberal administrations. As had happened in 1879, the economic pressures to which the export industries in the economy were subjected after 1930 led to widespread support for a return to protection and a willingness to try the tariff again as a stimulant to domestic recovery. Some of the economic results of the commer-

cial policy pursued from 1914 to 1939 will be reviewed in this and the following chapter.

By 1914 a decade and a half of prosperity, based on westward expansion and financed by foreign and British capital, had resulted in an over-expanded railway system, excess capacity for capital goods production, and boom conditions in real estate values.[1] Before the end of that year some contraction (37 per cent decline in building construction in 1914) had set in. The protection-fostered manufacturing industry seemed destined for severe strain in adjusting itself rapidly to increased production of consumer goods, a change made inevitable by the slowing down of the rate of new investment and capital formation. The war, however, brought a great new demand, both on the export and domestic fronts. The new railway system was fully utilized, and the iron and steel industry was in part converted from railway to war equipment. The prairie provinces expanded as a market for the lumber of British Columbia and the farm tractors and machinery of Ontario. The Quebec cotton and woolen industry expanded to fill the gap left by the reduction of imports from Britain. The Maritimes became a focal point for exports to Europe and the West Indies as their fishing, shipbuilding, and lumbering industries achieved a degree of prosperity not attained since the 1850's.

Despite the horizontal increases in the tariff in 1915, and the controversy that fiscal policy engendered, the protective features of the tariff were then of secondary importance. The 7½ and 5 per cent increase in ad valorem rates was somewhat offset by the decline in ad valorem equivalents of specific duties owing to increases in prices.[2] In any case during wartime the major emphasis was upon exports of food and munitions.[3] Extractive industry

[1] Between 1900 and 1914, $4500 to $5000 million was invested in capital goods in Canada. *Report on Dominion-Provincial Relations,* I, 76.

[2] Average ad valorem rates on dutiable imports declined from 27.4 per cent in 1914–15 to 20.6 per cent in 1920–21.

[3] At the peak of the war boom about one-third of Canadian manufacturing capacity was engaged in war orders for other countries. Merchandise exports increased by $1,108.4 million or from $431.6 million in 1914 to $1,540.0 million in

and agriculture enjoyed the boom along with manufacturing. Between 1913 and 1918 production of the leading non-ferrous base metals increased from $29 million to $74 million. Newsprint and woodpulp shipments abroad increased fivefold.[4] In the prairie provinces field crop acreage increased 84 per cent between 1914 and 1920, and the value of all field crops for the Dominion increased 60 per cent.[5]

Some growth of long-run significance occurred simultaneously with the war boom and during the immediate post-war period. Comparison of the 1923 economy with that of 1910 makes evident a remarkable increase in the output of consumers goods. The net value of rubber products, for example, increased from just under $3.5 million to over $30 million; textile products, chiefly clothing and cotton manufactures, increased from about $67 million to nearly $100 million; chemical production increased more than four and a half times; electric light and power over five times; and furniture production doubled, as did the output of the iron and steel industry.[6] Some of these data exaggerate the actual expansion, as they are not corrected for price changes, but the physical production of all manufactured goods was about 44 per cent greater in 1923 than in 1910. Certainly no tariff policy could have been as effective as the inflated purchasing power of the war economy at home and abroad in stimulating expansion of facilities and in fully utilizing the capital equipment constructed in the previous period.

For Canada, the post-war reaction of 1921–22 was mainly a "price" depression, as the volume of production and exports was well maintained. The physical quantity of exports and the physical volume of business actually increased by 18 and 6 per cent respectively from 1920 to 1922.[7] Only during 1921 did the indexes

1918. $386.1 million increase consisted of munitions, $488.9 million of agricultural products, $35.9 million products of mining, fishing or forestry and $193.3 million of miscellaneous manufactures. *Report on Dominion-Provincial Relations,* I, 92.

[4] *Report on Dominion-Provincial Relations,* I, 41.

[5] *Report on Dominion-Provincial Relations,* I, 108.

[6] Mackintosh, "Economic Background of Dominion-Provincial Relations," p. 29.

[7] *Report on Dominion-Provincial Relations,* I, 117, Table 30.

dip below the previous year. The price declines were drastic, however, in "protected" as well as export lines. The general wholesale price index fell by 37 per cent from 1920 to 1922, and the index of manufactured goods prices fell by only about one per cent less.[8] Export prices fell 41 per cent and wheat prices 57 per cent in the same period. Rehabilitation activities abroad, however, furnished a large market and exports increased in volume by the surprising amount of 36 per cent between 1920 and 1923. The fall in the foreign exchange value of the Canadian dollar and the capital inflow reduced the violence of the adjustment as far as Canada's trading position was concerned.

The main features of Canadian development after 1920 were not closely related to tariff policy except insofar as the tariff induced certain American corporations to make direct investments in the Dominion.[9] In 1922 $237 million net in long term capital entered Canada. Most of this investment was attracted to central Canada, which, from the standpoint of economic readjustment after 1920, perhaps needed it least. What has been termed the dislocation of prices and costs in agriculture—to which the tariff contributed, at least prior to its reduction in 1922 and 1923—will be discussed in the next chapter.[10] For the most part, however, any influence that the relatively stable or declining tariff rates

[8] All price indexes referred to are those of the Dominion Bureau of Statistics. See *Recent Economic Tendencies in Canada,* 1914–1934 (Ottawa: King's Printer, 1935).

[9] By the end of 1929, 1071 American firms had branches in Canada, exclusive of agencies or distribution centers Seventy-seven per cent of the capital employed was American, 18 per cent Canadian, and 5 per cent British. There were 172 British and 17 foreign branch plants at this time. American branches represented an investment of about $1500 million, British of $200 million, and foreign of about $6 million. *British and Foreign Branch Factories in Canada.*

On January 1, 1930, branch plants in Canada were divided about as follows: iron and its products 23.4 per cent, chemicals 17 per cent, wood and paper 16.6 per cent, non-ferrous metals 9.7 per cent, non-metallic minerals 8.0 per cent, vegetable products 7 6 per cent, textiles 7.2 per cent, animal products 3.5 per cent, central electric stations 3.0 per cent, other 4.5 per cent. *British and Foreign Branch Factories in Canada.*

[10] See Mackintosh, "Economic Background of Dominion-Provincial Relations," p. 39.

may have had during the first years of the post-war decade is not distinguishable from the results of exchange depreciation.

After 1925 it seemed as if permanent adjustments had been completed and durable prosperity was ahead. As Dr. Mackintosh observes: "By 1925 Canadian expansion had been resumed. For most industries cost-price relationships were once more conducive to investment, new resources and new techniques had started strong expansion in certain industries and world conditions were favourable to increased international trade and therefore to economic expansion in countries such as Canada." [11] During the next four years, 1926–1929, national income rose 19 per cent,[12] and the index of home investment by over 54 per cent.[13]

The impetus for this expansion came, in the main, from new investment in non-ferrous metal mining in central Canada and British Columbia, from the development of cheap electric power which made possible the rise of the newsprint and paper industry to first place in the manufacturing field, and to the high yields, continuing export demand, and better marketing methods for Canadian wheat and flour. Gold mining based on new discoveries and techniques was also of growing importance as were new industries, such as aluminum production, based on the application of cheap electric power to imported raw materials. Most of these developments represented extensions into the post-war decade of trends started during the war years. This was particularly true of the non-ferrous metal mining and smelting industry. In 1929 the smelting of copper, lead, nickel, and zinc was second only to the pulp and paper industry in the manufacturing field.

In the next chapter the developments of the period in the iron and steel, farm machinery, automobile, and textile industries will be examined with particular regard to the influence of the tariff. While no categorical statement is possible without more complete study, it seems clear that no outstanding achievements or disadvantages can be attributed to the comparatively moderate and

[11] Mackintosh, "Economic Background of Dominion-Provincial Relations," p. 40.
[12] *Monthly Review,* The Bank of Nova Scotia, May 1937.
[13] Based on, Value of construction contracts awarded, *Canada Year Book,* 1937.

stable tariffs as far as manufacturing in general was concerned. The manufacturing industry increased its proportionate share of national net production from 31 per cent in 1925 to 40 per cent in 1929, due largely to expansion in smelting, electrical equipment production, and the automobile industry.

The forerunner of depression was the weakening of raw material, especially export, prices. The fall in national income resulting therefrom caused a drastic decline in demand for industrial goods, and stimulated those with a stake in the domestic market to press for the exclusion of competing foreign goods. From 1926 onward some weakening in the prices of wheat, flour, and woodpulp had been evident although not until late 1929 did a fall in prices comparable to that of 1921 set in. The prices of seventeen leading Canadian exports fell 53 per cent from July 1929 to the close of 1932. The principal agricultural exports fell 70 per cent in price during that period.[14] These declines may be compared with a 34 per cent sag in general wholesale prices, 22 per cent decline in the cost of living, and 14 per cent reduction in the prices of the principal manufactured goods that were recipients of tariff protection.[15] Farm products lost over one-third of their purchasing power, in terms of manufactured goods, during this interval.

If we may assume the sincerity of its leading exponents, the higher tariff initiated in 1930 should be appraised as a stabilizing and even a recovery policy. The thesis of its principal advocates was that by preserving the home market for domestic industry the incomes of all groups could be maintained or restored. No attempt is made here to assess thoroughly the theoretical validity of this "boot strap" argument in an exporting economy. It was similar to the programs of other great raw material exporters, such as Australia, where monetary adjustments and scaling down of interest charges on the public debt, as well as higher tariffs, were

[14] All export prices fell 40 per cent and all farm prices 49 per cent. Newsprint, basic to Canadian-American trade, fell by 38 per cent.

[15] See *Report on Dominion-Provincial Relations,* p. 144, Table 41 and p. 149, Table 46. Commodities included in the protected group were iron and steel products, textiles, boots and shoes, chemicals, glass and its products, cement and pottery.

15 per cent. On the other hand, workers in service industries and other occupations protected by natural factors fared much better since they obtained 35 per cent of the national income in 1932 as compared with 29 per cent in 1929.[18]

A corollary of the "tariff for fuller employment" policy was the objective of attracting direct investment to Canada in the form of Canadian branches of American industries. Higher tariffs and concessions in the British Empire markets were designed to accomplish this objective. Many new branch plants, as well as extensions of old ones, were constructed during and after 1930. Marshall, Southard, and Taylor have estimated that of the 1350 companies in Canada controlled by or definitely affiliated with American firms in 1934, 26 per cent were established or acquired between 1930 and 1934.[19] This does not include firms that were established and then passed out of existence during that five-year period. During each of the years 1930 to 1932 inclusive, over 90 new branches were opened, almost double the 1920 to 1929 average.

The establishment of a substantial majority of these firms was undoubtedly prompted by the tariff. The authors of *Canadian-American Industry* found that 76 per cent of the American companies with Canadian branches mentioned the tariff as an important factor in determining their policy of locating branches in Canada. Sixty-three per cent of the Canadian companies addressed also acknowledged this factor.[20] Twenty-four per cent of the American and 15 per cent of the Canadian replies mentioned Empire preferences as an additional motive.[21] Forty per cent of the replies said they were serving foreign and Empire

[18] "Economic Background on Dominion-Provincial Relations," p. 149, Table 47.

[19] Herbert Marshall, Frank A. Southard, Jr., Kenneth W. Taylor, *Canadian-American Industry, A Study in International Investment* (New Haven: Yale University Press, 1936), p. 19. D.B.S. reported the following after August 1930: 176 new American subsidiaries. Vegetable products 8, animal products 6, textiles 12, wood and paper 15, iron products 53, non-ferrous products 39, non-metallic minerals 7, chemicals 15, mining and engineering 2, miscellaneous 8.

[20] *Canadian-American Industry,* p. 200.

[21] *Canadian-American Industry,* p. 202.

markets from Canada. Such firms as Canadian Industries, Limited, affiliated with E. I. du Pont de Nemours Company and Imperial Chemicals, Limited, which built a cellophane plant because of the increase in duty from 5 to 18 per cent in 1931, are cases in point. On the other hand, in fields such as newsprint in which American subsidiaries produced 51 per cent of Canadian production in 1933, the tariff was unimportant.[22] Availability of raw materials in such industries as timber, pulpwood, fisheries, asbestos, and nickel, cheap power in aluminum production, and the normal factors that make for branch plant development within the domestic American economy were also at work.

The gross gain to the national economy, in terms of new investment, income, and employment from these establishments, must have been substantial. In many cases, of course, existing Canadian facilities were simply absorbed, through purchase or exchange for patent rights, by American enterprise. Even in such cases, however, additional employment was provided as a result of fuller utilization by the new foreign operators. Furthermore, in many industries established prior to 1930, the proportion of the finished products actually manufactured in Canada increased during the depression. One hundred twelve companies reported that the Canadian content of their products increased from 72 per cent in 1929 to 81 per cent in 1933.[23] The multiplier effect of this expansion was undoubtedly felt outside the industries immediately concerned. The price paid for these advantages was higher costs to the purchasers of protected goods whether exporters, industries protected by natural forces (although they seem to have fared reasonably well), or the ultimate consumers. As Marshall, Southard, and Taylor observed: "The conclusion seems inescapable that branch plants in Canada have, on the whole, higher costs than do their parent companies and that, sheltered by a tariff, they pass these costs on to the consumer." [24]

[22] *Canadian-American Industry,* p. 52.

[23] *Canadian-American Industry,* p. 233.

[24] *Ibid.,* p. 239. The authors ascertained price differentials as follows on similar products made by branch plants in Canada and parent concerns in the United

Since the first impact of the higher tariffs was on imports, changes in import trade will now be examined in some detail. The government's policy from 1930 to 1932 was not only to curtail the total of imports but to influence their source as well as their volume and character. In the budget speech of June 1931 Mr. Bennett stated that the government would make trade arrangements with countries "which have to have what we produce," and on the markets of which Canadian goods "do not come in competition with the surplus they themselves produce in their own countries." [25] If the bonds of Empire could be tightened in the process so much the better. This policy found expression in the emergency tariff of September 1930 and in the tariff changes of 1931, as well as in the Ottawa agreements. Though the Canadian-American agreements of 1935 and 1938, and the British pact of 1937, represented a departure from this policy, the tariff remained strongly protectionist during the years of peace before September of 1939. Let us now see how the Canadian imports were affected by tariff changes in the 1930's.

The relative positions of Canada's principal supplies and markets from 1931 to 1934 are presented in Table 23. The proportional gain in the Canadian market made by the British Empire countries, particularly the United Kingdom, during fiscal 1933 was, of course, largely at the expense of the United States. This gain was only partially sustained during 1934. Despite Canada's exchange dumping duties, the depreciation of sterling after 1931 was probably nearly as important as the agreements in affecting the source of imports. This exchange advantage in favour of United Kingdom was lost when the United States currency was depreciated in 1933.

It should be noted that Canadian gains in British markets were larger and much better sustained than Empire sales to Canada. Despite the depreciation of the United States currency in 1933,

States. Four makes of automobiles 25 per cent, typewriters 27 per cent, electric refrigerators 28 per cent, light bulbs 23 per cent, films 10 per cent, cameras 7 per cent.

[25] *Debates,* Commons, 1931, II, 2167.

TABLE 23

CANADIAN FOREIGN TRADE

*Fiscal Years Ending March 31*

| Country | Exports To 1931 % | 1933 % | 1934 % | Imports From 1931 % | 1933 % | 1934 % |
|---|---|---|---|---|---|---|
| United Kingdom .. ..... | 28.3 | 39 6 | 41.4 | 17.4 | 24 4 | 22.1 |
| British Empire . ..... | 36 4 | 48.0 | 51.3 | 24 2 | 33 1 | 30 6 |
| British Empire, except U K. | 8 1 | 8.4 | 9 9 | 6.8 | 8 7 | 8 5 |
| United States ....... .. | 42 5 | 32.1 | 34 1 | 62.6 | 54.2 | 57.2 |
| All foreign countries ........ | 63 6 | 52.0 | 48.7 | 75.8 | 66.9 | 69 4 |
| Foreign countries except U S.. | 21.1 | 19.9 | 14.6 | 13.2 | 12.7 | 12 2 |

Canada sent a larger proportion of her total exports to the United States in fiscal 1934 than in the previous year.

The year to year changes in the value of all imports and of selected categories are shown in Table 24. For convenience in comparison the value of imports for 1929 has been taken as 100 and the yearly changes are expressed as a percentage of that figure.

For the fiscal year ending March 31, 1931, the decline in total imports amounted to 27 per cent of the base year total or, for brevity, 27 points. During the same period imports from the United States were reduced 30.3 and those from the United

TABLE 24

CHANGES IN DOLLAR VALUE OF IMPORTS AS PERCENTAGE OF IMPORTS OF 1929

| Fiscal Year | All Imports U.K. | All Imports U S. | All Imports Total | Fibres and Textiles U K. | Fibres and Textiles U S | Iron and Its Products U K | Iron and Its Products U.S. |
|---|---|---|---|---|---|---|---|
| 1930 .. ... | −2.3 | −2 4 | −1.4 | −11.4 | −12 1 | +11 3 | −11.7 |
| 1931........ | −20.6 | −30 3 | −27.0 | −24 7 | −29 0 | −15 6 | −45.5 |
| 1932...... .. | −22 3 | −26 8 | −25 9 | −24 2 | −21 2 | −24.4 | −27.3 |
| 1933 ..... | −10.2 | −13.7 | −13.6 | −6.5 | −10.2 | −7.5 | −11.6 |
| 1934 ... .. | +9 6 | +0 6 | +2.2 | +12.4 | +7.4 | +25 0 | +1 6 |
| 1935........ | +3.4 | +7 6 | +7.0 | +1.8 | +2.5 | +10.1 | +9 0 |
| 1936........ | +3.2 | +1 8 | +3.2 | +5 3 | +1.8 | +10.7 | +3.5 |
| 1937....... | +7.0 | +8 6 | +8 6 | +7 9 | +6.2 | +12.7 | +10 5 |
| 1938.. .... | +6.9 | +10 8 | +10.0 | +5.2 | −1.3 | +43.1 | +15.5 |

Kingdom about ten points less or 20.6. Shipments from other countries (not included in the table) declined still less, or by 19.1.

During the following fiscal year the picture was slightly more favourable for the United States. Again considering 1929 as 100, all imports declined 25.9, American imports fell 26.8, British imports by 22.3, and shipments from other countries about 25.7 of the 1929 level, with Britain enjoying 54.8 per cent of her pre-depression market, the United States only 40.5 per cent of hers, and other countries 59.1 per cent of theirs. The United States, however, was still by far the largest exporter to Canada. In 1932 she supplied 60.8 per cent of all Canadian imports. Britain had 18.4 per cent, and all other countries combined 20.8 per cent.

If particular attention is paid to the iron and steel group and the large textile and fibres category, the largest elements in Canadian import trade (making up 44 per cent of total imports in 1929), and the items regarding which the increases and adjustments in the tariff had been particularly aimed, interesting facts become apparent. In the iron and steel group, comprising much capital equipment and durable consumers goods, and in which the United States had long been supreme (the United States had nearly 92 per cent of the trade in 1929), that country was failing to hold its proportionate share of the Canadian market even before the Ottawa agreements. United States exports to Canada were at 25.5 per cent of their 1929 levels in 1932, and British exports were at 72.3 per cent of theirs. The small trade that other countries enjoyed in this group (about 3 per cent of the total in 1929) had fallen to 42.7 per cent of 1929 levels in 1932.

In the textile markets, however, a different picture appears. Total textile imports declined by a considerably smaller percentage than steel products, 59.3 per cent as compared with 71.5 per cent between 1929 and 1933. The United States enjoyed a comparatively small margin over the British in this line in 1929. During the period after 1929, on the other hand, the falling off in imports from the United States was only slightly more rapid than the British, and other countries held their positions better than either the United States or Britain. Britain and the United States

supplied practically the same value of textile products to Canada in 1932.

Against this background we will examine the next three years of trade when the influence of recovery and the Ottawa agreements made themselves felt. The fiscal year ending March 31, 1933 evidenced no stabilizing of import values, though the decline was only 13.6 as compared with 25.9 in the previous year. Total British shipments declined in value 10.2 points and imports from the United States by 13.7. Imports in the textile and iron and steel groups reflected much the same degree of change, with the United Kingdom holding its ground more successfully than the United States.

Fiscal 1934 was the first full year during which the Ottawa agreements were in operation and requires special attention. Imports from all countries increased 2.2 per cent of 1929 imports during that year. Britain had a 9.6 point rise, the United States an increase of less than a point, and other countries a 1.5 increase. The difference between the American and British trade experience is striking in the iron and steel group. British exports to Canada of iron and steel recovered 25 points while American exports were recovering a mere 1.6. In textiles Britain recovered 12.4 points in 1934, the United States 7.4, and others about 5.3. In recovery as well as in recession the competitors tended to maintain their relative shares of the textile, but not of the iron and steel group. In general, the value of British shipments fell off more slowly and rose more rapidly than Britain's competitors. In 1935 the trends of 1934 continued, though the United States gained more rapidly than the British during that year—7.6 as against 3.4 in all imports. In the iron and steel group the United States gained 9.0 compared to 10.1 for the British; in fibres and textiles the comparative gains were 2.5 as against 1.8.

After the United States–Canadian trade agreement went into effect, the share of the United States in total Canadian imports showed improvement. In the fiscal year ending March 31, 1937, the first full year in which the agreement was in operation, the United States' share increased to the full extent of the increase

in total imports, namely 8.6, while the United Kingdom's share increased 7.0. In 1938 the gain of the United States was slightly more marked, for while total imports increased 10.0, those from the United States increased 10.8 and from the United Kingdom only 6.9. It is to be noted, however, that with respect to textiles and iron and steel products the gains of Britain were proportionately greater than those of the United States.

Reviewing these nine years of depression and recovery and considering the cumulative effect of the 1932 and 1935 agreements, certain conclusions can be drawn. A much more rapid rate of decrease occurred in United States shipments to Canada during 1930–1933 than in imports from the United Kingdom. By the end of fiscal 1933 the United Kingdom retained 44.5 per cent of her 1929 sales, while the United States retained but 27.5 per cent. During the recovery years, on the other hand, both countries regained their former trading positions at about the same relative rates. By the end of fiscal 1938 the United Kingdom was supplying goods to Canada at 74.6 per cent of her 1929 rate, and the United States at 56.4 per cent of hers.

In the special categories over the nine-year period, the United States trade in textiles fluctuated much less than in iron and steel. The United Kingdom lost relatively the same in both categories but made more rapid gains in iron and steel than in textiles. By the end of fiscal 1933 the United States retained 28 per cent of her 1929 trade in textiles and only 4 per cent of her trade in iron and steel. By the end of fiscal 1938 the United States was exporting both textiles and iron and steel products to Canada at about 44 per cent of the 1929 rate. The United Kingdom still had 33 per cent of her 1929 trade in textiles, and 65 per cent in iron and steel, at the end of fiscal 1933. By the end of 1938 the United Kingdom had 65.6 per cent of her 1929 textile market and 166.6 per cent of her 1929 iron and steel market. The United States supremacy in the Canadian import market for iron and steel products was threatened, especially in certain specialized categories.

The influence of the Ottawa agreements may perhaps be more

definitely appraised in some of the other branches of Canadian imports in which substantial preferences were granted to Britain.

The accompanying tabulation (Table 25) shows the amount of change in the preference which the United Kingdom enjoyed over the United States for certain important items, as a result of the Ottawa agreements, together with the relative shares of the

TABLE 25

PERCENTAGE OF IMPORTS OBTAINED FROM UNITED STATES AND UNITED KINGDOM

*Selected Items, 1931 to 1936*

| Item | Change in British Preference in 1932 | | 1931 | 1933 | 1934 | 1935 | 1936 |
|---|---|---|---|---|---|---|---|
| Aniline and coal tar | | U.K. | 7.1 | 12.2 | 12.4 | 11.6 | 10.1 |
| dyes . . . | 0 to 10% | U.S. | 47.2 | 31.2 | 32.5 | 33.5 | 34.4 |
| Aluminum manufac- | | U.K. | 5.8 | 4.9 | 4.0 | 4.5 | 4.8 |
| tures . . | 10% to 15% | U.S. | 91.6 | 91.9 | 92.1 | 92.7 | 93.4 |
| Sheets, tin-coated . | 7½% to 20% | U.K. | 92.5 | 97.4 | 96.3 | 96.6 | 95.9 |
| | | U.S. | 7.5 | 2.5 | 3.7 | 3.4 | 3.9 |
| Sheets for tin-plate . | 5% to 15% | U.K. | 0.0 | 22.1 | 82.2 | 79.8 | 92.9 |
| | | U.S. | 100.0 | 77.9 | 17.8 | 20.2 | 7.1 |
| Iron and steel angles. | $2 a ton to $3 a ton | U.K. | 8.7 | 31.2 | 23.9 | 24.2 | 32.0 |
| | | U.S. | 84.9 | 59.9 | 72.0 | 71.6 | 63.9 |
| Cotton yarns, No. 40 | | U.K. | 11.4 | 82.4 | 90.0 | 90.3 | 91.4 |
| and finer . . . | 0 to 25% | U.S. | 88.6 | 17.6 | 10.0 | 9.7 | 8.6 |
| Cotton fabrics, un- | 7½% + 1¢ a yd. to | U.K. | 25.1 | 45.0 | 53.0 | 57.5 | 58.0 |
| bleached . . . . . | 7½% + 2¢ a yd. | U.S. | 74.0 | 54.0 | 46.6 | 41.9 | 41.6 |
| Cotton fabrics, | 7½% + 1¢ a yd. to | U.K. | 55.2 | 65.2 | 65.6 | 68.8 | 73.4 |
| bleached . . . | 7½% + 2¢ a yd. | U.S. | 40.4 | 23.9 | 5.5 | 22.6 | 23.4 |
| Woven fabrics of wool, | 12½% + 10¢ a yd. to | U.K. | 56.3 | 85.6 | 70.3 | 81.8 | 89.5 |
| n.o.p. . . . . . . . | 12½% + 18½¢ a yd. | U.S. | 7.8 | 2.5 | 2.9 | 4.2 | 3.5 |
| Coal . . . . . . . . . | 40¢ a ton to | U.K. | 2.6 | 48.0 | 9.9 | 42.0 | 38.4 |
| | 50¢ a ton | U.S. | 97.4 | 52.0 | 90.1 | 56.4 | 55.2 |

two countries in Canadian imports in 1931 and in the fiscal years following the Ottawa conference. The British gains in sheets for tin-plating, cotton yarns, and, to a lesser extent, in cotton fabrics in general, and anthracite are striking. The increase of 10 per cent and 25 per cent in the margin of preference for the first two was important. On the other hand, the United Kingdom

failed to make gains in markets where United States firms were well established, such as aluminum manufactures and radios. In the Canadian market for steel sheets, on which the margin of preference was reduced, the United Kingdom position was actually less favourable than that of the United States. It seems clear, therefore, that the Ottawa agreements gave the United Kingdom a larger share in the Canadian market than it would otherwise have had in most of the items under review.

Considerable debate has occurred regarding the relative trade gains of Canada as compared with the United States following the 1935 agreement. After January 1, 1936 Canada enjoyed a relatively greater increase in exports to the United States than the United States did in shipments to Canada. For the nine months' period, January to September 1936, the gains were 33 million dollars for United States shipments to Canada and 58 millions for Canadian exports to the United States. However, total Canadian imports from the United States increased by 15 per cent as compared with a 10 per cent increase for receipts of goods from the rest of the world during the first six months of the agreement period. The gains in trade resulting from the reciprocal tariff reductions, however, cannot be separated from the normal cyclical increase in trade incident to the emergence from depression. It is true that Canadian farm products, on which duties had been lower when entering the United States, increased substantially while other agricultural exports decreased in amount, but the total of agricultural shipments to the United States market underwent a normal cyclical increase. As was noted above, the United States had made gains in exports of textile products to Canada, and in this category the trade agreement placed the United States producers in a more favourable position with respect to the United Kingdom. However, the most important gains by the United States were made in structural iron and steel and other lines of capital goods and structural equipment, the duty on which was not affected by the agreement. Lines such as automobiles, which had felt the impact of depres-

sion most severely, and which gained a more favourable position from the trade agreement, made but modest gains. Table 26 compares United States and Canadian gains in a summary fashion.

TABLE 26

PERCENTAGE CHANGES IN UNITED STATES IMPORTS FROM CANADA AND CANADIAN IMPORTS FROM THE UNITED STATES FROM 1935 TO 1936[a]

| Category of Products as Affected by 1935 Agreement | United States Sales to Canada | Canadian Sales to United States |
|---|---|---|
| Products on which duties were reduced | +30.2 | +79.8 |
| Products bound free of duty | +35.0 | +19 7 |
| Products bound to existing duties | None | −23.0 |
| Leading non-agreement articles | +7.0 | +63.7 |

[a] Data from U S Department of State, May 28, 1937, "Analysis of Canadian-American Trade during the First Year under the Reciprocal Trade Agreement." Tables 3 and 4.

The stimulus of World War I to Canadian expansion was carried over into the post-war decade despite the drastic price adjustments of 1921, as the volume of export trade was maintained and later increased. Foreign demand for exports and domestic and foreign investment in the development of basic Canadian resources were supported by capital exports from the United States during the twenties both to Canada up to 1925 and to Canada's principal markets thereafter. Stability and progress were possible under a regime of moderate tariffs until foreign markets were shattered and raw material prices tobogganed in 1930. Thereafter the policy of fighting depression by higher tariffs met with limited success, owing to shrinkage of income from export sales and the collapse of investment in raw material industries which the tariff could not protect. In fact, tariff-induced rigidities in manufactured goods prices impaired the lot of those engaged in such industries. Changes in the distributive shares of the shrunken national income were a joint result of the fall in export prices and rigid prices for protected manufactured goods. The investment in protected industries was inadequate to take up the slack. In fact the multiplier effect of reductions in investment and

lower income from abroad was such that national income fell even more rapidly than the decline in exports.

The effects of the Ottawa and Canada–United States trade agreements on the shares of Canadian imports between the mother country and the United States is difficult to isolate from cyclical factors in this disturbed period. From our partial analysis above, it seems clear that the 1932 agreement, combined with the widening of the preferences and the currency depreciation in Britain that preceded it, gave the United Kingdom a substantial competitive advantage in the shrunken Canadian market, an advantage reduced but not eliminated by the 1935 agreement and the fall in the exchange value of the United States dollar. Discriminatory administration of the Customs Act may have been of equal, if not greater, importance. Some specific effects of this discrimination will be discussed in the next chapter when the progress of the more important protected industries is reviewed.

# CHAPTER XV

## PROTECTION AND INDUSTRIAL MATURITY
### CONTINUED

MANY NEW industries became prominent in Canada during the two decades of peace. Most of the new firms were affiliates or branches of the great consumer and capital equipment industries of the United States. Nearly all were successful in obtaining some degree of protection to underwrite their investments in Canada. Producers or assemblers of radios, refrigerators, and other household appliances were established for the first time. The limited character of the actual manufacturing processes carried on in many of these plants, representing only the last stages in manufacturing the finished product, reduced their capacity for providing employment in peacetime as well as their contribution to the war potential of the nation when the supply of unassembled materials from the United States became scarce after Pearl Harbour. The newer divisions of agriculture, such as greenhouse production, fruits, vegetables, and dairy products, raised the issue of agricultural protection in the post-war period. Since their marketing period is short, a new device, the seasonal tariff, with rates varying over the year to afford maximum protection during their selling period against their climatically more favoured competitors in the United States, was introduced. The scope of this work does not include an analysis of the many complex problems related to the development of these new industries. We shall consider in this chapter the recent progress of the industries which we have reviewed in previous chapters and, in addition, an outstanding representative of the durable consumer goods industries, automobile production. We turn first to the iron and steel industry, focusing our attention on the primary and castings and forgings phases particularly.

The iron and steel industry experienced no contraction as a

result of the final removal of the bounties in 1912. In fact, the production of pig iron exceeded one million tons, for the first time, in 1913. Although the recession of 1914 brought a decline of almost one-third in pig iron production, the diversification and enlargement of markets caused by the war and the resulting severance of supplies from the United Kingdom and the United States caused a quick recovery. The industry played a valuable part in the war effort, for Canada was producing almost one-third of all British steel shell casings before the Armistice. In 1918 the production of steel ingots and direct steel castings was about two-thirds again as great as in 1913.[1] Ferro-alloy production increased over five and a half times from 7.2 to 39.9 thousand tons for the same period. Unfilled contracts and deferred replacements kept production in the primary industry at a high level through 1920. Following the crisis of 1921, however, the industry did not regain its 1920 level until 1928. Even the prosperity level reached in that year was short-lived. Over-specialization in railway equipment, particularly in the Maritime provinces, retarded healthy expansion. By 1932 pig iron production fell to 19.9 per cent and steel production to 43.7 per cent of 1926 levels.

In 1930 higher tariffs were called upon to cushion the shock of the great depression. In that year the tariff changes by both the Liberal and Conservative administrations were confined principally to treaty and general rates.[2] Tariff changes of 1930–

[1] All statistics, unless otherwise noted, are from, Dominion Bureau of Statistics, *Iron and Steel and Their Products in Canada* (Ottawa).

| [2] Description of Article | Rate Before Dunning Budget | | | Rate After Special Session, September 1930 | | |
|---|---|---|---|---|---|---|
| | B P. | Int. T. | G.T. | B.P. | Int T. | G T. |
| Pig iron, per ton . . . . . . . . | $1.50 | $2.50 | $2 50 | $1.50 | $2 50 | $2.50 |
| Ingots of iron & steel, n.o.p., per ton . . . . . . . . . . . . . . | 1.50 | 2.25 | 2.50 | 1.50 | 3.00 | 3.00 |
| Blooms, cogged, ingots, slabs, billets, n o p., per ton . . . . . . | 1.50 | 2.25 | 2.50 | 2.50 | 4.00 | 4.50 |
| Plates of iron or steel, hot or cold rolled (a) 40 inches wide or under . . . . . . . . . . . . . . . . . | 2.00 | 2.75 | 3.00 | 4.25 | 6.00 | 7.00 |

1931 and under the Ottawa and Canadian-American trade agreement rates of 1932 and 1935 have been estimated by the Royal Commission on Dominion–Provincial Relations. Some of the results of that calculation are given in Table 27. It will be recognized, of course, that after 1935 the second column of the tariff applied to imports from the United States.

TABLE 27

AVERAGE AD VALOREM EQUIVALENTS OF RATES[a]

*(Unweighted Average)*

| | Castings and Forgings | | |
|---|---|---|---|
| | Preferential | Treaty | General |
| 1928 | 13 | 19 | 20 |
| 1933 | 12 | 22 | 24 |
| 1936 | 7 | 22 | 25 |

[a] Mackintosh, "The Economic Background of Dominion-Provincial Relations," p. 92.

As its sponsors desired, the increase in the tariff resulted in a larger share of the domestic market for Canadian producers, increases that were held through the recovery period as well. In 1928 only 54 per cent of the primary iron and steel products consumed in Canada were supplied by the Canadian industry. In 1933 this increased to 85 per cent, and in 1936 it still stood at about that level. In castings and forgings Canadian firms held 87 per cent of the home market in 1928. In 1933 and 1936 their holdings were 92 per cent.[3] In 1929 imports constituted 27.6 per cent of rods and bars consumed in Canada, 94.6 per cent of structural steel, and 81.5 per cent of rolling mill products; in 1934 percentages were 7, 56.8, and 58.3 respectively. Approxi-

| Description of Article | Rate Before Dunning Budget | | | Rate After Special Session, September, 1930 | | |
|---|---|---|---|---|---|---|
| | B.P. | Int. T. | G.T. | B.P. | Int. T. | G.T. |
| Iron or steel angles, beams, channels, and other shapes not further manufactured than hot rolled. Not less than 35 lbs. per yd. | 2.00 | 2.75 | 3.00 | 1.00 | 2.75 | 3.00 |
| Group of structural steel items | 2.00 | 2.75 | 3.00 | 4.25 | 6.00 | 6.00 |

[3] Mackintosh, "Economic Background of Dominion-Provincial Relations," p. 92.

mately the same ratios prevailed between imports and domestic consumption in 1936 as in 1934. Structural steel and rolling mill products, most generously protected in 1930, showed greatest gains in self-sufficiency. Canada imported over $35 million of rolling mill and forging shop products in 1928, at an average rate of duty of 19 per cent, mostly from the United States. By 1933 these imports had declined to just over $2.2 millions at an average rate of 24 per cent. In 1936 imports increased to $5.7 millions, and owing to higher prices and the trade agreement with the United States the average rate of duty was only 20 per cent.

Thus it would seem that the tariff policy of 1930 was successful in its primary objective of obtaining a larger share of the home market for domestic industry. In evaluating commercial policy in the light of the broader public interest, however, two further questions must be examined. First, was the larger share of the market which home industry obtained sufficient in amount to maintain activity in the industry at a reasonably high level making it a stabilizing factor in the Canadian economy during the depression period? And secondly, was the price policy during the depression such as to assist the secondary capital goods industries and the consumers goods industries in withstanding the contraction of the national income that accompanied the drastic fall in the prices of exported goods?

The gross value of Canadian primary iron and steel production fell from $62 million in 1928 to about $18.5 million in 1933. In castings and forgings the contraction was from $81.9 million to $24.2 million over the same period.[4] A decrease in both cases was about 70 per cent as compared with a decrease of about 44 per cent in the national income produced over the same period.[5] A comparison of the cyclical lows of the depression of 1921 and 1922 with those of the period under review shows the more drastic character of the contraction during the later period.

[4] Mackintosh, "Economic Background of Dominion-Provincial Relations," p. 92.

[5] Between 1929 and 1933 the index of production of all producers' goods decreased only 52 per cent. See *Dominion Bureau of Statistics Indices* used in Royal Commission, *Report on Dominion-Provincial Relations,* vol. I, Table 48.

Based on 1926 as 100 per cent, the low of 1921 and 1922 for steel production was 61.9 per cent and for 1930–1933 it was 43.7 per cent. The fact that the tariff was lower in 1921–1922 does not, of course, establish a cause and effect relationship. The decline in payrolls and employment in the primary industry was extreme between 1929 and 1933, indicating its diminishing contribution to the national income.

The influence of the tariff on the price policy of the iron and steel industry is difficult to evaluate. Since it belongs to a group of industries which in large nations such as the United States, Germany, and Great Britain are noted for so-called "administered" prices, one would not have expected to see a high degree of price flexibility during the depression regardless of tariff policies. Rather, the impact of reduced demand would have been expected to fall on the volume of output. This certainly occurred in Canada. From the upturn in 1923 to the end of 1929 prices of primary iron and steel products were falling slowly. After 1930 this fall was slightly accelerated. However, steel prices in Canada were maintained far above the level of prices in general in the Dominion. Price differentials between the United States and Canadian industries were closely related to the tariff rates.

From the beginning of 1929 to the end of 1936 the monthly price quotations of seven commodities in this industry have been compared.[6] The purpose of this was to get some measure of the changes in quoted prices. It is recognized that a true measure of actual price changes could only be obtained by careful scrutiny of discount practices and many other factors which make normal price quotations somewhat unreliable guides to actual realized prices. The following may serve, however, as an indication of the degree of price rigidity in list prices during this period. If quotations for each of the seven separate commodities chosen had changed each month during the period, 672 changes would have occurred. Actually only 33 price changes in all are recorded. In other words, prices changed in only about 5 per cent of the possible instances. Twelve of the changes in quotations were in tin-

[6] Department of Labour price data were used in this study.

plate, which had an erratic movement during the latter part of 1933 owing to the entrance of British competition into the market. For the remaining six commodities, namely, basic and foundry pig iron, steel billets, bars, steel rails, and structural shapes, out of a possible 576, only 21 changes occurred, giving us a "price change" index of only 3.7 during the depression and recovery. The months of price reduction were June 1929 and October 1930 for steel billets, August 1930 for basic pig iron and steel bars, and May 1933 and March 1934 for steel rails. Prices of structural shapes experienced the greatest rigidity, remaining unchanged from June 1929, when a fall from $2.15 to $2 per hundred pounds occurred, until December 1936 when the $2.15 price was restored. It is interesting to note that all the commodities under consideration, except tin-plate, increased in price in December 1936.

The establishment and maintenance of the iron and steel industry in Canada by the federal government through subsidy and tariff protection has imposed burdens on the taxpayer, the consumer, and the secondary industries of the country. The industry has been a disturbing rather than a stabilizing factor in the Canadian economy during periods of depression. It has relied principally upon the import of raw materials and has failed to develop profitable export markets except during the period of extensive direct subsidy from 1897 to 1912. Its concentration on railroad rails and equipment, a program encouraged by the policy of the federal government, hampered its integration with the rest of the manufacturing economy.[7] On the positive side, however, the industry has contributed substantially to the fighting forces of the Empire during wartime. During the recovery period following 1936, through diversification and expansion, it estab-

[7] It has been suggested to the author that the present location of the primary industry at points remote from the principal sources of iron and steel scrap has restricted its expansion and hampered its integration with the secondary industries of the country. This and many other factors, such as lack of capital owing to generally low returns and expensive raw materials owing to high transportation costs, have been important. "Loop holes" in the tariff for the import of materials for favoured secondary industries, i.e., farm machinery, have been of particular importance.

lished its position more firmly in the domestic market and the future of the industry has appeared brighter in recent years. With the expanded manufacturing capacity of Canada, resulting from her present war effort, productive facilities of the industry which have not been overly expanded in this war should be more fully utilized in the future, and perhaps a considerable part of the artificial stimulants which have appeared essential in the past may be dispensed with.

The substantial protection which both political parties have accorded the primary iron and steel industry in Canada has, for the most part, escaped strong criticism from the export industries and from the consumers. This is explained by the fact that prices of iron and steel enter only indirectly into either costs of most capital equipment or the cost of living of the consumer. In contrast, the tariff on farm machinery has long been a focal point of controversy. The intimate relation of that industry to agriculture, the fact that its centre of production has been in urban Ontario and its principal market in the western provinces, combined with the fact that it has been able to develop large export markets in the face of United States and world competition, have all seemed good reasons for putting the industry on a free trade or low tariff basis in Canada. The political power of the farmer has brought about reductions in the implement duties in every important year of tariff change from 1894 to 1924. In 1907 reductions were accompanied by a *quid pro quo* to the industry in the form of extensions of the drawback system to certain iron and steel products used for the production of domestically consumed machinery, in 1919 by the lower freight rates on machinery shipped to western Canada, and in 1924 by a remission of sales taxes on materials used in production.

The prosperity of the industry is, of course, closely correlated with agricultural income. Wartime demand and high prices in agriculture terminated the recession into which the industry was falling in 1914. Rising prices for materials and labour, however, kept profits at a moderate level during most of the war period, and agricultural demand for new equipment did not average more

than two-thirds of the 1910 and 1913 levels. The export trade, particularly after the Armistice, was a profitable feature of the industry's business. Exports increased from just over $4 million in 1916 to nearly $9 million in 1918, and to over $11.5 million in 1919. Canada and the United States had a virtual monopoly of trade outside the European continent as a result of concentration elsewhere on war production.

Along with most industries, farm machinery obtained additional tariff protection as a result of the special war revenue duties of 1915. In 1918 and 1919 farm representatives in Parliament denounced the implement tariff with considerable vigour. As a result, the special war duty of 7½ per cent under the general tariff was taken off farm machinery in 1919. This duty had not applied to binders and reapers. In addition, a reduction of 5 per cent (from 20 per cent to 15 per cent) was made in 1919 on principal tillage machines. Ploughs, threshing machines, traction engines, and portable engines were lowered from 20 per cent to 17 per cent; others, including wagons and hay-making appliances, were brought down from 25 per cent to 20 per cent.

During the early 1920's the industry's economic position was weakened though falling agricultural income and rigid material and labour costs were more important than the tariff reduction. The value of output fell from 131 per cent of 1926 levels in 1920 to 48 per cent in 1922. That the volume of production fell slightly more, namely from 141 per cent to 51 per cent, attests to rigid prices in the industry. Certain price comparisons in Table 28 for the war and post-war years are interesting. As compared with 1913, implement prices rose 55 per cent by 1918 and 103 per cent at their peak in 1921. Both labour and materials used in the industry, however, rose more rapidly and reached a higher peak than implements though, in the case of materials, the fall in 1922 was much more precipitious. Wheat reached a much higher point than farm machinery, but its peak was attained in 1919 and it declined thereafter. This latter fact intensified agricultural opposition to high tariffs after the war. Farm prices in general were only 25 per cent higher in 1923 than in 1913, whereas

implement prices were still 70 per cent above the pre-war levels.

Post-war profits were far from excessive. According to the testimony of the general manager of Massey-Harris before a Parliamentary committee in 1923, the cost of producing and distributing a grain binder was $56 more than its selling price in 1921.[8] The firm had losses of 4.9 per cent on capital and surplus in 1921 and 2.1 per cent in 1922.[9] In the latter year its prices were cut 20 to 25 per cent. Other firms in the United States

TABLE 28

PRICE COMPARISONS, 1913–1922[a]

| Year | Farm Implements | Materials | Labour | Wheat |
|---|---|---|---|---|
| 1913 | 100 | 100 | 100 | 100 |
| 1914 | 100 | 98 | 104 | 182 |
| 1915 | 103 | 104 | 97 | 136 |
| 1916 | 105 | 110 | 108 | 196 |
| 1917 | 120 | 143 | 134 | 290 |
| 1918 | 155 | 185 | 162 | 301 |
| 1919 | 162 | 216 | 191 | 354 |
| 1920 | 171 | 217 | 221 | 242 |
| 1921 | 203 | 275 | 253 | 121 |
| 1922 | 166 | 154 | 212 | 127 |

[a] *Journals of the House of Commons*, vol. LX (1923), Pt. 2, App. No. 3, p. 1275.

and Canada experienced losses of about the same magnitude.

In 1922 and 1924 the Liberal government then in power, striving to retain the political support of western Canada, eliminated the tariff on farm machinery as an instrument of protection. Reductions of those two years are shown in Table 29.

[8] *Journals of the House of Commons*, vol. LX (1923), Pt. 2, App. No. 3, pp. 1501f. Among the rigid costs in 1923 were: equipment, 144 per cent above 1913 levels, pig iron 126 per cent, steel 88 per cent, freight 80 per cent, coal 95 per cent, lumber 134 per cent, and labour costs 113 per cent higher than before the war. Massey-Harris estimated its own selling prices at only 64 per cent above 1913 levels. *Ibid.*, p. 1248, the author found that for 8 selected implements prices were 69 per cent higher in 1923 than in 1913, 62 per cent was the price increase for similar implements in the United States in the same period. *Ibid.*, p. 1456.

[9] *Journals of the House of Commons*, vol. LX (1923), Pt. 2, App. No. 3, pp. 1238f.

TABLE 29

TARIFF REDUCTIONS OF 1922 AND 1924

| | Rate of Duty Before Reduction of 1922 % | Reductions 1922 % | Reductions 1924 % | Rate After Reduction of 1924 % |
|---|---|---|---|---|
| Mowing machines, harvesters, binders, reapers: | | | | |
| Preferential | 12½ | 5 | 7½ | Free |
| Intermediate | 12½ | 2½ | 4 | 6 |
| General | 12½ | 2½ | 4 | 6 |
| Cultivators, harrows, horse rakes, drills, spreaders, weeders: | | | | |
| Preferential | 10 | | 10 | Free |
| Intermediate | 15 | 2½ | 5 | 7½ |
| General | 15 | 2½ | 5 | 7½ |
| Ploughs, threshers, parts: | | | | |
| Preferential | 12½ | 2½ | 5 | 5 |
| Intermediate | 17½ | 2½ | 5 | 10 |
| General | 17½ | 2½ | 5 | 10 |
| Rollers, hay loaders, hay tedders—implements N.E.S.: | | | | |
| Preferential | 12½ | 2½ | 5 | 5 |
| Intermediate | 20 | 5 | 5 | 10 |
| General | 20 | 5 | 5 | 10 |

In addition to these reductions the protection of 17½ per cent heretofore afforded the infant tractor industry was almost completely eliminated by the removal of the tariff on tractors not valued in excess of $1400.[10]

As a compensation to the industry for the tariff reductions pig iron, bar iron, and bar steel were placed on the free list when used in the production of the principal harvesting and tillage implements. All other materials entering into implements were dutiable at 7½ per cent under all tariffs and the sales tax was

[10] Prior to 1922 the tractor industry had grown rapidly in Canada but on an unsound basis and failures were numerous in 1922–23. Fordson and International Harvester were dominant in the Canadian field. In 1917 Massey-Harris purchased a plant in Batavia, New York, for the manufacture of tractors. This Canadian company chose to produce tractors in the United States because of cheaper parts prices and because suitable facilities were available there.

eliminated on materials and goods consumed in implement production as well as on the implements themselves. These considerations seemed to have satisfied the industry and no strong objections to the reductions were raised despite the unhappy picture presented before the Parliamentary committee in 1923.[11]

In fact, after 1925 the conjuncture of higher prices and higher yields of wheat and other farm products created a favourable market for farm machinery, despite the loss of protection. The rates of duty prevailing throughout the implement schedule from 1924 until the upward revision of September 1930 were hardly capable of affording any net protection to the industry, yet conditions on the domestic market after 1925 were such that complaints by the industry before the advisory tariff board in 1928 and 1929 were few in number and moderate in emphasis. Firms appearing before the board were zealous to illustrate their internal efficiency and their ability to withstand foreign competition.[12] Production in terms of volume increased from 51 to 112 (1926=100) over the period 1922 to 1927 and in terms of value from 48 to 112, indicating the remarkably stable price level.

Implement exports, which had suffered a violent relapse after the war years, amounted to over $9 millions in 1924 and had climbed to almost double that figure by 1930. Argentina, Brazil, New Zealand, Australia, France, Germany, and Spain absorbed Canadian harvesters, mowers, ploughs, threshers, and drills in large numbers. Even the United States used Canadian-made combines in the western states.

The year 1929 was a year of expanding capital assets and swelling inventories, especially for firms with foreign branches, for they were obliged to carry stocks during the off-season to supply southern hemisphere markets. Since an unfortunate experience with long term credits in 1921–1923, however, the companies were stressing cash and short-payment credit sales, and conse-

[11] See *Debates*, Commons, 1924, III, 2212 (Garland). Letter from Massey-Harris expressing favorable reaction to sales tax remission.

[12] Massey-Harris had profits plus additions to surplus as follows: 1925, $3,145,245; 1927, $3,452,255; 1928, $4,575,545; 1929, $3,105,993. In proportion to size other implement companies had even higher earnings. *Moody's Manual of Industrials.*

quently their working capital positions were sound. Canadian field crops were reduced in value 12.4 per cent in 1929 but the wheat pools were able to furnish the farmer with more immediate purchasing power than he had previously enjoyed. Consequently, the domestic market for machinery was well maintained until 1930. In that and succeeding years, however, few industries reacted more violently to the depression than farm machinery, and

TABLE 30

Production and Value of Output, 1920–1935

| Year | Value | Volume |
|---|---|---|
| 1920 | 131 | 141 |
| 1921 | 102 | 97 |
| 1922 | 48 | 51 |
| 1923 | 68 | 69 |
| 1924 | 69 | 63 |
| 1925 | 65 | 68 |
| 1926 | 100 | 100 |
| 1927 | 112 | 112 |
| 1928 | 108 | 111 |
| 1929 | 106 | 112 |
| 1930 | 70 | 84 |
| 1931 | 29 | 23 |
| 1932 | 14 | 11 |
| 1933 | 14 | 15 |
| 1934 | 23 | 27 |
| 1935 | 36 | 46 |

the restoration of protective duties of 25 per cent was ineffective in stemming the tide. The value of output fell from 106 per cent of 1926 levels in 1929 to 14 per cent in 1932 (see Table 30). Volume fell from 112 to 11 over the same period. In 1928 the industry had a gross value of output of over $41 million, in 1933 only $5.3 million remained.[13] Meanwhile imports declined from about 100 per cent of gross value of domestic output in 1928 to 40 per cent of the greatly shrunken 1933 production. The larger share of the home market, as in the steel industry, was insufficient to maintain a fair level of production.

[13] Mackintosh, "Economic Background of Dominion-Provincial Relations," p. 92.

Before the tariff was increased in 1930 the manufacturers, with the exception of International Harvester, promised not to raise their prices except when forced to do so by higher costs. Prices on the average were stable in 1931 and fell between 1 and 2 per cent in 1932. A select committee of the House investigating implement prices in 1936 was of the opinion, however, that the tariff increase in 1930 slowed down the fall in Canadian prices as compared with the United States.[14] The committee also observed that the premium on United States funds, plus the special excise tax of 3 per cent on imports, gave Canadian producers protection of over 15 per cent from 1931 to 1933, in addition to the regular tariff.[15]

With respect to prices the two questions of greatest interest are: first, the direct influence of the tariff on prices, and second, the degree of price control exercised by combinations of firms in Canada and the relation of such control to the tariff. Canadian firms have denied that any relation exists between their prices and the tariff. They contend that domestic costs of production determine the price charged. Since International Harvester and John Deere between them did 45.2 per cent of the Canadian business in 1936, only part of which was made in Canada, and many other American companies also contributed substantially (only about one-third of the Canadian market was supplied by purely Canadian firms), it seems clear that the tariff paid in bringing American machines and parts into Canada must have been a factor in supporting prices in 1931 to 1935. In 1936, however, the prices on many machines went up at about the time that the tariff was restored to the pre-1930 level. The largest Canadian producer, Massey-Harris, apparently has not valued the protection afforded by the Canadian tariff too highly, as it has long sold two-thirds of its output abroad. In the study of the select committee in 1936 of prices on identical implements on either side of the border (where freight costs could be assumed the same) price spreads varied from over thirty dollars on a binder to

[14] *Journals of the House of Commons,* LXXV (1937), p. 484.
[15] *Journals of the House of Commons,* LXXV (1937), p. 485.

only a few cents on drills, and were even lower in Canada for disc harrows.[16] In most cases, howevêr, the Canadian farmer was paying prices higher than his American neighbour. The committee observed that "This differential does not appear to be justified by the existing manufacturing costs in the United States and Canada." [17] It is our conclusion that in periods of relatively high income implement prices are indeed set independently of the tariff and are dependent principally on costs and market demand. In depression the tariff, if sufficiently high, may be a factor, though not the only one, in maintaining higher prices.

As for price control agreements or understandings in the Canadian market, the companies exchanged their price lists but denied all collusion. The select committee of the House found, however, that "Over the period under review, 1913 to 1936, the prices for the selected typical implements in Eastern and Western Canada have been generally the same for comparable implements and machines." [18] The committee concluded that service and quality competition was keen in Canada, but that price competition was practically nil. However, since the tariff was largely responsible for the establishing of the Canadian branch of International Harvester in 1903, and since that firm has been an important factor in maintaining what competition exists in the industry in Canada, it would be difficult to support the thesis that the tariff has been a monopoly breeder in this industry.[19]

At its low level of 7½ per cent, it is certain that the implement tariff did not impose a very severe burden on agriculture. The

[16] *Journals of the House of Commons,* LXXV (1937), p. 470.

[17] *Journals of the House of Commons,* LXXV (1937), p. 473. In the case of the 8′ binder, costs were found to be (International Harvester Evidence) 4.19 per cent higher in the United States and labour costs 16.65 per cent higher. Taking into account overhead, however, and all costs combined the U. S. had a 3.34 per cent advantage. *Ibid.,* p. 480.

[18] *Journals of the House of Commons,* LXXV (1937), p. 468.

[19] For the 8′ binder the International Harvester machine was reduced in price $10 between 1930 and 1932, $10 between 1932 and 1934. For Massey-Harris the decreases for the same periods were $5 and $14 and for Frost and Wood $5 and $9. Price increases were practically the same between 1934 and 1936, $18 for International Harvester and Massey-Harris and $17 for Frost and Wood.

province of Manitoba reported in 1936, in a memorandum submitted to the Royal Commission on Dominion–Provincial Relations, that the implement tariff was increasing the cost of operations of a typical Manitoba farm by $18.45 per annum.[20] This represented about 5.6 per cent of the farm's expenditure on equipment and 1.8 per cent of its total expenditure for all purposes for the year.

The farm implement industry has exhibited powers of survival and even expansion, regardless of the tariff, whenever farm income has been reasonably high. In recent years the practices of the Canadian industry have closely resembled those of its United States counterpart, cutting output but maintaining prices during depression. However, the shrinkage or even disappearance of its market in the more vulnerable areas of this country lends some justification to that policy as far as the economic position of the industry, as distinct from the national welfare, is concerned. Tariffs, dumping duties, and for a time exchange depreciation, probably abetted this practice of price maintenance, but local understandings among distributors looking to stable prices within the industry were perhaps a much more significant factor. The industry has not contributed to a more stable economy and it is doubtful if the tariff of the depression years increased income or investment to an appreciable degree.

We will next consider the establishment and development in Canada, under a policy of liberal tariff protection, of the leading representative of the durable consumers goods industries, namely automobile manufacturing. Although the first representative of the automobile industry in Canada, the Ford Company, was incorporated as early as 1904, not until the war period did the industry reach the stage of large-scale production. In all the years from 1904 to 1916 inclusive, only about 135,000 cars were produced for domestic consumption. In 1917, on the other hand,

[20] *Manitoba's Case,* a submission presented to the Royal Commission on Dominion-Provincial Relations by the Government of the Province of Manitoba; Part IV "The Effects of Federal Tariff Policy on Western Canadian Economy" (Winnipeg: Kings Printer, 1937), p. 22.

nearly 94,000 cars came from Canadian assembly lines, and from that year on production was in excess of 100,000 cars per year.

No strictly Canadian concerns have long survived. The American contributions, such as patent rights, subassemblies, research facilities, and managerial ability, have been combined with Canadian investments of real and money capital and with profits ploughed back out of successful Canadian operations. Nor has the Canadian industry, producing on the average barely 5 per cent of the total North American production, proved a fortunate field of investment for the smaller units in the American industry or for those firms which do not produce low-priced cars capable of tapping a reasonably large percentage of the Dominion's domestic markets. The trend towards concentration of the market in the hands of Ford, General Motors, and Chrysler is even more striking in Canada than in the United States. The improved quality of the low-priced units has speeded up this trend. The depression of 1930 contributed to even greater concentration in the three mass producers, and centred consumer interest more intensely on cars having a wholesale value under $750. Several of the manufacturers, such as Packard, formerly builders only of expensive cars have entered the low-price field and have won back a share of the market.[21]

Although not an industry truly indigenous to Canada, exports of automobiles to Empire markets where they have enjoyed preferences have been important in obtaining volume for the industry in Canada. During the years 1931–1934 Canada exported 27.6 per cent of her domestic production, as compared with only 10.1 per cent for the United States.

Since rather complex changes occurred, particularly after 1926, we will set forth the adjustments in rates before considering the industry's position in the economy and the merits of the policy

[21] Sales by the big three in Canada represented 75 per cent of the total in 1930, 88 per cent in 1934. In 1925, 69 per cent of the sales in Canada and the United States was of models with wholesale prices less than $750; in 1933, this percentage rose to 95 per cent. See: Brief of the Canadian Automobile Chamber of Commerce, in Canadian Tariff Commission, Hearings on the Automobile Industry, 1935–36.

pursued regarding it. The Canadian automobile industry fell heir to the substantial degree of protection afforded by the 35 per cent blanket rate on vehicles in the 1897 tariff. The only exception or addition to this general tariff rate until 1926 was the 7½ per cent special war revenue tax for the period from February 12, 1915, to May 19, 1920. In April 1926 the following rates, differentiating between cars by price classes, were introduced:

| | British Preference | Intermediate Tariff | General Tariff |
|---|---|---|---|
| Passenger automobiles valued at retail at not more than $1200 and trucks | 12½% | 17½% | 20% |
| Passenger automobiles valued at more than $1200 | 15% | 25% | 27½% |

Incidental to the tariff adjustment of 1926, the excise tax base was altered to give additional protection to the industry.[22] The revised (1926) War Revenue Act provided that the excise tax should not apply to automobiles unless priced above $1200 (if the cars came from a country entitled to the British preference) or to the intermediate tariff, providing the 50 per cent Canadian content requirement was met; and likewise that it should not apply to lower-priced cars of domestic manufacture if 50 per cent of the cost of producing the car was incurred in Canada, such 50 per cent not to include duties and taxes on imported materials.

When the exemption from the excise tax was given on the cheaper domestically produced cars, amounting to an additional protection of 5 per cent on duty-paid value (the equivalent of 6 per cent on imported value when the nominal rate of duty was 20 per cent), a promise was exacted from the industry that this reduction would be handed on to the consumer. The immediate effect on the retail prices of cars in this price class was to reduce them by the amount of the tax. In the ensuing two years, however, the ratio between American and Canadian prices regained its equilibrium position, most prices in Canada being equivalent to United States prices plus the full protection, or about 26 per

[22] A flat excise tax on automobiles had been imposed in 1918. Since 1922 the excise tax had been 5 per cent of the retail price up to $1200 and 10 per cent of the excess over $1200.

cent on the dutiable value of the cheaper class of car. At hearings of the Canadian tariff commission in 1935–36, members of the industry admitted the protective quality of the excise tax exemption. They later voiced complaint at the reduction from 5 per cent to 3 per cent tax on imported cars under the Canada–United States Trade Agreement of 1935. The 3 per cent import excise was removed under the terms of the 1938 Canadian-American trade agreement.

The position of the Canadian manufacturers on the domestic market was not seriously damaged by the 1926 revision of the tariff, but some qualitative change did occur in imports at this time, as cheaper cars in the category most affected by tariff reductions made up a larger percentage of imports than formerly.

The tariff was again amended, as of June 1931. The general tariff remained 20 per cent on cars falling below the $1200 price class, but was raised to 30 per cent for cars selling between $1200 and $2100, and to 40 per cent for units selling at more than $2100. A more important measure was the altered basis for valuation of cars for duty purposes introduced in 1931 (P.C. 297), which placed the maximum dealer discount at 20 per cent for duty purposes. Any difference between the value resulting from the list price less the discount actually allowed by the United States manufacturers to the Canadian distributors, and the value for duty under the arbitrary 20 per cent discount allowed by the customs department, was chargeable as dumping duty. The arbitrary dealer discount was removed after the Canada–United States Trade Agreement was negotiated in 1935. During the 1931–1935 period the effective rate of duty was raised as much as 10 per cent by this device without any change in the nominal tariff rates (see Table 33). The dealer discount provisions of 1931 were apparently effective in reducing imports of both commercial and passenger cars, and the demand for domestically produced cars was much better sustained during the depression than was the demand for imports. In 1932 2.9 per cent of the passenger cars and 3.8 per cent of the trucks consumed in Canada came from abroad, as compared with 23.6 per cent and 20 per cent in

1929. This resulted in part from some shifting of the demand from the higher quality units produced abroad to the popular makes in which the Canadian industry specialized, as well as from the higher protection. After 1932, cars from the British countries were allowed to enter free of duty; and in 1935, under the Canadian–United States Agreement, rates on American cars in the above price classes were reduced to 17½, 22½, and 30 per cent respectively. In the 1936 adjustments the rate differentials between different price classes were abolished, and the intermediate tariff, which now applied to the United States, was fixed at 17½ per cent for all cars.

It is clear from the above that the tariff on automobiles has been fairly high and that it has been used, as in the case of primary iron and steel and farm machinery, to secure a larger share of the home market for the domestic industry during depression. We will now examine certain price and production data for the industry and the relation of the tariffs thereto.

The tariff has had a much more pronounced influence on automobile prices than on prices of farm machinery. Nominal factory-set prices of cars in Canada, with the important exception of Ford, have been equal to United States prices plus the Canadian tariff. The Ford Company has often set its prices much lower than the American prices plus the tariff though its prices increased substantially with the increased protection after 1930. The coincidence of price fluctuations in the two countries indicates the responsiveness of Canadian to American price changes.[23] The movement of prices of the three principal low-priced cars in the United States and Canada, 1930–1934 is shown in Table 31. Whereas prices fell in the United States by small amounts, they

[23] The effective rate of protection on the lower-priced cars was approximately 26 per cent, including the benefits derived from the exemption from excise tax on domestic products. The higher valuations for duty and dumping duty applied in 1931 raised the effective rate of protection to 37 per cent. The more highly priced cars received a higher rate under the differentiated tariff schedule, but were not exempted from paying the excise in 1926. Ford seldom took full advantage of its protection; in 1935 for instance the Canadian price of a Ford V-8 was only 30.5 higher than the price in the United States.

rose in Canada. The models changed, of course, but the changes were common to the two countries.

What evidence do we have regarding differences in demand in the two countries that might explain the pricing policies followed? Production declined in Canada by about 12 per cent more than in the United States, as compared with 1929 levels, during depression years.

TABLE 31

AVERAGE LIST PRICES OF AUTOMOBILES IN CANADA AND THE UNITED STATES, 1930–1934[a]

| | United States | | | Canada | | |
|---|---|---|---|---|---|---|
| | 1930 $ | 1934 $ | Decrease % | 1930 $ | 1934 $ | Increase % |
| Chevrolet | 675 | 645 | 4.4 | 948 | 970 | 2.3 |
| Ford | 600 | 585 | 2.5 | 860 | 919 | 6 9 |
| Plymouth | 625 | 585 | 6.4 | 890 | 900 | 1 1 |

[a] Information collected by Canadian Tariff Commission, Hearings on the Automobile Industry, 1935–36

The price policies indicate that manufacturers based their price policies on the expectation of a more stable demand in the United States than in Canada during the depression years, as they found it profitable to reduce prices and sustain production in the former market relative to the latter. The Canadian demand for automobiles probably would have declined more than in the United States, regardless of the manufacturers' price policies. Since the average life of the automobile is somewhat longer in Canada than in the United States, a factor that is not independent of the higher price level for the Dominion, postponable demand is undoubtedly a more important factor in the Dominion, and the fall in incomes of the relatively greater proportion of people obtaining their livelihood from agriculture and the extractive industries certainly must have reduced the potential demand more in Canada than in the United States. However, the combination of greatly reduced consumption in Canada relative even to the United States, and inflexible or rising prices is significant of the effects of closing the market to foreign competition.

The Canadian automobile manufacturer has rested his claim for net protection and higher prices upon the lack in Canada of economies of large-scale production enjoyed in the United States and upon higher material and labour costs, higher selling expense, taxes, etc., in the Dominion. We will examine some of the bases for these claims. The following does not purport to be an exact or complete comparison of production costs but from data available some conclusions regarding relative unit labour and material costs in the two countries may be made.

Wage costs constituted about one-half to two-thirds of the value added by manufacture in the industry between 1921 and 1935 (see Table 34 for complete cost breakdown). In 1925 the labour costs per motor car manufactured in Canadian and United States automobile plants were about seventy-five and seventy-seven dollars respectively, omitting labour costs embodied in purchased materials and parts.[24] In 1929, however, the situation had changed in favour of the United States plants and comparable labour costs were seventy-six dollars for Canada and sixty-five dollars for the United States. By 1933 the spread was still more pronounced, about seventy-two dollars for Canada but only fifty-two for the United States.

These data are, of course, a reflection of many factors and their absolute or even relative amounts at a particular time may not indicate a more favourable position for either country from labour cost point of view. Actual proportion of work done in the plants of the two countries as compared with total work required to produce an automobile from raw material to finished product is only one of these factors. If one assumes that the degree of integration existing in each country did not change materially between 1925, 1929, and 1933, and also that relation between production of cheaper and more expensive cars did not change materially as between the two countries over this period, the data do indicate an impairment of the relative cost position of the Cana-

[24] Basic data upon which these computations were based were obtained from Dominion Bureau of Statistics for Canada, and Automobile Manufacturers Association for the United States.

dian industry. This may have been owing to a relative rise in the wage rates of Canadian labour or, failing that, it may indicate failure to use labour as efficiently in Canada.

To ascertain the extent of money wage differences between automobile workers in the two countries, a study of wage quotations for specific grades and types of labour has been made. Official figures of the Department of Labour in Canada and the Bureau of Labor Statistics in the United States have been used.

Standard occupations were selected in sufficient number to provide comparable pictures. Ten trades within the automobile industry for 1925 and 1928 and six for 1934 were compared with respect to the wage paid per hour in each occupation.[25] Six show higher average hourly rates being paid in the United States than in Canada for each year of the comparison. Often the differential was substantial, amounting in the case of blacksmiths to nearly 100 per cent. With the exception of sheet metal workers, who received slightly higher wages per hour in Canada in 1925 and 1928, all specialized workers received higher hourly wages in the United States. Only the large heterogeneous groups, such as labourers and assemblers, received more in Canada. These groups probably contain more skilled individuals in Canada than in the more highly specialized United States industry. One trade, that of machinist, shows higher wages being paid in the United States in all but one year, 1925. Three occupations show higher wages being paid in Canada in two of the years, although, if the comparison is carried through the depression years, labour in the United States industry even in these occupations received a higher wage near the bottom of the cycle. Of the 22 comparisons made, 15 showed higher wages being paid in the United States, and the remainder showed the opposite tendency.[26] In all six cases for

[25] The unweighted arithmetic averages of money wages in cents per hour were as follows:

| | *1925* | *1928* | *1934* |
|---|---|---|---|
| Canada | 74.4 | 72.8 | 54.3 |
| United States | 76.7 | 79.6 | 75.3 |

[26] From the statistical point of view, some defects in these comparisons must be noted. A rather wide disparity appeared between the quotations for different firms;

which a comparison in 1934 was possible, wages in the United States were much above Canadian levels, even for general labourers.

The data at our command point to the conclusion that wage differences in this industry were comparatively unimportant between the two countries during the more prosperous periods but were more significant during the depression, and the differentials that do exist indicate lower costs in the Canadian branch of the industry. The higher wage costs per car in Canada, therefore, can only be explained by relatively less efficient use of labour, mainly caused no doubt by smaller sized production units, greater seasonal variation in production and, most important, sharper falling off in demand owing to depression.

Turning to relative costs of materials and purchased parts used in the industry in the two countries, Canadian tariff rates are perhaps our best guide. Although the Canadian industry used substantial amounts of domestic materials, most of them are made by protected industries (see Table 36).

Materials may be grouped under three principal headings, according to their treatment in the tariff. The three classes are free materials, dutiable materials with the duty subject to drawback if certain prescribed conditions as to Canadian content are met, and, lastly, goods which can enter only over a fairly high tariff and the importers of which are not entitled to drawback except when the finished automobile is exported.[27] A 99 per cent drawback of duty paid on imported parts is allowed on all exported cars. The parts or materials which enter free of duty are,

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lack of homogeneity within the trade and differences of wage scale in different localities account for this. The higher quotations were usually accepted as the more representative, inasmuch as the large firms are located in the centres where the rates of wages are higher. No basis of weighting is available as the number of employees per occupation in each establishment is not given in the official returns. The stability of the quotations over a period of years indicates a likelihood of unreliable quotations in some instances. The United States data provide a greater differentiation by subdivisions of the general occupational or trade groups.

[27] Owing to the fact that many imported parts are used for replacement rather than new car construction, it is impossible to determine the ratio, on a value basis, between domestic and imported parts used in the automobile industry.

for the most part, not manufactured in Canada, and with regard to them no problem of price differential between the United States and Canada can be said to arise except for minor differences in transportation costs and a 5 per cent spread in sales tax between the two countries. The value and relative importance of the free group, as compared with total imports of parts, is shown in Table 32. Its growing importance during the depression and recovery years indicates concern for the end product industry and represents a broad national policy.

TABLE 32

PERCENTAGE OF TOTAL PARTS IMPORTED ENTERING FREE OF DUTY[a]

| | |
|---|---|
| 1929 | 10.0 |
| 1930 | 10.2 |
| 1931 | 11.3 |
| 1932 | 18.2 |
| 1933 | 31.6 |
| 1935[b] | 32.3 |
| 1936 | 38.0 |
| 1937 | 41.2 |
| 1938 | 52.2 |

[a] Computed from information provided by Department of National Revenue, Customs Division, Ottawa.
[b] Shift from calendar to fiscal years ending March 31.

In addition to the duty, automobile parts were subject to a 1 per cent import excise tax as of June 1931. This was superseded on April 7, 1932, by a 3 per cent tax, which was removed under the terms of the Canadian–American Trade Agreement of 1938. The Canadian sales tax exceeded that in Michigan and Ohio by about 5 per cent. Thus from 1932 to 1938 excise and sales tax made for a differential in price of about 8 per cent regardless of the rate of duty.

The drawback provisions of the tariff on automobile parts reached their greatest state of complexity in the tariff of May 1936 although somewhat similar practices had been developing from 1930. We will discuss the drawback as it operated after the 1936 changes.

The group of parts subject to import duty, part of which might

be refunded as a drawback to the importer if he succeeded in meeting certain Empire content requirements, is the most difficult to analyze from the standpoint of cost differential. Most of these products entered at 20 to 25 per cent, 20 to 40 per cent of

TABLE 33

CHANGE IN TARIFF ON AUTOMOBILES EFFECTED BY THE UNITED STATES–CANADA AGREEMENT, 1935

| | | |
|---|---|---|
| **Pre-Trade Agreement Situation** | | |
| List price in the United States | | $1000 00[a] |
| Less 25% dealer discount | | 250.00 |
| | | $750.00 |
| Under Order-in-Council maximum dealer discount was 20%. Therefore, list price less discount allowed | $800.00 | |
| Advertising and handling | 9.00 | |
| United States excise tax | 14.36 | |
| Value for duty | $823.36 | |
| Duty at 20% | | 164.70 |
| Dumping duty ($823 36 less $750) | | 73.36 |
| Excise tax at 5% of duty paid value | | 53.07 |
| Sales tax at 6% of duty paid value | | 63.68 |
| Wholesale price before dealer's commission | | $1104.81 |
| **Post-Trade Agreement Situation** | | |
| List price in the United States | | $1000.00 |
| Less 25% dealer discount | | 250.00 |
| | | $750.00 |
| Advertising and United States excise as above | $23.35 | |
| Value for duty | $773.35 | |
| Duty at 17½% | | 135.34 |
| Dumping duty | | 23.36 |
| Import tax of 3% on duty paid value | | 27.26 |
| Sales tax at 6% on duty paid value | | 54.52 |
| Wholesale price before dealer's commission | | $990.48 |

[a] Factory list price of $1000 is assumed for illustrative purposes.

which was refundable. Firms producing 10,000 units or less were required to meet only a 50 per cent Empire content requirement, whereas firms producing larger numbers of cars were required to meet a 65 per cent content requirement in order to earn the drawback on imported parts. This proviso which discriminated in favour of the smaller plants was designed to keep certain branch firms in operation which were on the point of leaving the Canadian field.

While the drawback reduced the price differential attributable to the tariff on imported parts by as much as 40 per cent, or in other words, reduced the effective rate from say 20 per cent to 12 per cent, the content requirement would seem to have encouraged automobile manufacturers either to expand their operations vertically or to pay premium prices on domestic materials and parts to build up the Empire content of their products.

There has indeed been some tendency toward vertical expansion by General Motors, but it conflicts with the tendency toward standardization of parts between the different manufacturers which would be a desirable development in view of Canada's relatively small market. Vertical combination in automobile production in the United States has been motivated by the presence of monopolistic combinations among suppliers of essential parts and of raw materials, or by the desire to find an outlet for surplus investment funds accrued out of earnings. In Canada suppliers of materials (steel, glass, textile fabrics) are usually large firms with which integration is not practical because the Canadian automobile companies take only a small proportion of their output.

The drawback provisions of the customs schedules, which were intended to encourage a larger percentage content of Canadian labour and materials per unit of output, reacted favourably upon the domestic parts industry. The value of parts imported fell from nearly 56 millions in 1929 to 10 millions in 1933, and the decline was fairly steady over the period. Selling value of product at works for the domestic parts industry did not experience a corresponding falling off. The decline was from 32 to 13 millions

that was not compensated for by any substantial additional employment of Canadian labour. The requirement of 50 per cent Canadian content for firms to obtain the drawback on domestically consumed cars was only a partial remedy for the "assembly plant" situation, as, even if the firms met the content requirements, it was done by incurring a penalty which they were able to pass on to the consumer by virtue of the high tariff. The 1936 reduction or elimination of duty on "parts" not of the standardized types adapted to production for the small Canadian market

TABLE 34

COMPOSITE CAR COST OF PRODUCTION ANALYSIS[a]

| | | | |
|---|---|---|---|
| Full delivered price to consumer exclusive of freight and license | | | $914.56 |
| Retained by dealer | | | 213.48 |
| Delivered price to dealer, f.o.b. | | | 701.08 |
| Sales tax | | | 37.35 |
| Amt. realized by the manufacturer | | | 663.33 |
| *Factory cost* | | | |
| Imported material | | $150.31 | |
| Imported material included in Canadian purchases | | 48.42 | |
| Duty and excise tax upon imported material less drawback | | 39.09 | |
| | | $237.82 | |
| Purchases of Canadian supplies ex-imported materials | | 207.19 | |
| Productive labour | | 51.74 | |
| *Overhead expenses* | | | |
| Depreciation | $20.63 | | |
| Maintenance of plant | 11.09 | | |
| Tool and die costs | 14.70 | | |
| Non-prod. labour | 29.59 | | |
| Salaries of superintendents | 7.49 | | |
| Miscellaneous | 27.60 | | |
| | | 111.10 | |
| Manufacturing costs | | | 607.85 |
| Margin to cover commercial expenses and profit | | | $55.48 |

[a] Source—Schedule 77 in *Report of the Canadian Tariff Commission* on the Automotive Industry, 1935–36. This cost breakdown was represented as typical for the industry.

was a commendable step. Sound policy should induce the manufacturers to produce only those lines best adapted to Canada and to the export markets of the Dominion, namely, the smaller, low priced units each of which can hope to enjoy a reasonably large volume of sales, and to duplicate most of the cost reducing features of the American industry.

To properly evaluate public policy with respect to this industry, some comment upon the absorptive capacity of the Canadian market is necessary, although precise statement is incompatible with our fragmentary data bearing on elasticity of demand for this product. Potential demand, together with possible economies of large-scale output, should be the ultimate guide of government

TABLE 35

General Tariff Rates Payable on the Principal Parts[a]

| Article | In Effect April 1926 | In Effect Dec. 1935 | Effective January 1, 1936 · U S -Canada Trade Agreement, Intermediate Tariff |
|---|---|---|---|
| Engines and parts | 27½% | 27½% | 25% |
| Castings | 27½% | 27½% | 25% |
| Forgings | 30% | 30% | 27½% |
| Manufacture of iron and steel n.o.p. | 30% | 35% | 25% |
| Manufactures of aluminum | 25% | 30% | 30% |
| Grinding wheels | 25% | 30% | 25% |
| Electroplated parts | 35% | 45% | 30% |
| Electrical apparatus | 27½% | 30% | 25% |
| Electric generators | 27½% | 37½% | 30% |
| Machine tools | 27½% | 35% | 25% |
| Cotton manufactures | 35% | 35% + 4¢ lb. | 30% + 3½¢ lb. |
| Cotton fabrics (unbleached) | 25% | 25% + 4¢ lb. | 20% + 3½¢ lb. |
| Cotton fabrics (bleached) | 25% | 27½% + 4¢ lb. | 22½% + 3½¢ lb. |
| Imitation leather | 30% | 35% + 4¢ lb. | 40% + 32½¢ lb. |
| Wool fabrics | 35% | 40% + 35¢ lb. | 40% + 32½¢ lb. |
| Hot rolled tool steel | 12½% | 15% | 12½% |
| Hot rolled steel strips, No. 14 or thinner | 12½% | 15% | 15% |
| Coal (slack) | 50¢ per ton | 75¢ | 75¢ |
| Machinery | 27½% | 25% | 25% |
| Machinery not made-in-Canada | 27½% | | 20% |

[a] The quotations are nominal rates from which the drawback refund is deductible.

policy. Although the automobile density of the Canadian market is far in excess of that of European and South American countries, it is but slightly more than one-half that of the United States. In 1935 it would have required in the neighbourhood of one million additional motor cars (over four years' total production for the industry) for the United States automobile density figure to be attained in Canada. There are, however, factors peculiar to the Canadian population that probably preclude the American per

TABLE 36

DUTIES ON PRINCIPAL PARTS PRODUCED IN CANADA, 1936

*Intermediate Tariff*

| | Percentage Rate of Duty[a] |
|---|---|
| Axles | 17½% |
| Batteries (storage) | 25 |
| Bodies and cabs | 27½ |
| Brakes and parts | 17½ |
| Bumpers and bumperettes | Free |
| Cables and wire assemblies | 22½ |
| Clutches | 17½ |
| Glass, laminated | 25 |
| Lamps, incandescent miniature | 30 |
| Piston rings | Free |
| Radiators, complete | 20 |
| Radiator cores | 20 |
| Springs, chassis | 30 |

[a] Most of these rates are subject to drawbacks if 40% to 65% content requirements are met.

capita consumption figure being reached in the Dominion. The somewhat greater diffusion of income in the United States, the greater proportion of the population engaged in mining, lumbering, and fishing in Canada, and the severe climatic conditions in many sections are considerations restricting the wider utilization of motor cars. The somewhat higher cost of gasoline and lubricants in Canada probably discourages a few potential consumers of the low income groups. The dominant rural proportion of Canadian population should widen the potential automobile market, for in the United States farm owners are larger per capita

purchasers of cars than are town dwellers.[28] The degree of exploitation of its potential market by the Canadian industry depends partly upon price but also upon the attainment of a higher degree of stability in the economic life of the country as a whole. Uncertainty regarding future income is a substantial deterrent from motor car buying.

Our analysis of the fourth and last important industry considered here is largely based on the published report of the Royal Commission on the Textile Industry of 1938. The textile industry, like most consumer goods industries, expanded during the war years. The consumption of raw cotton increased from 77 million pounds in 1913 to over 96 million by 1920. No new firms entered this division of the industry, however, and three large firms continued to dominate.[29] Expansion in the woolen industry where no such concentration existed brought an increase in the number of plants from 52 in 1915 to 66 in 1920.[30] This growth took place while the tariff remained at 1907 levels except for the revenue duties imposed from 1915 to 1920. The rates under the British preferential tariff ranged from 15 to 25 per cent ad valorem depending upon the degree of manufacture of the protected product. Thirty per cent was the highest of the preferential rates at this time. Intermediate rates were about 5 per cent and general rates 7½ per cent above the British preferential level.

The trend of tariff rates was downward during the ten years following 1920. In 1922 there was a reduction of 2½ per cent ad valorem affecting most classes of goods under the preference. Grey cotton fabrics were cut to 12½ per cent, and woolen and worsted fabrics to 27½ per cent. In 1923 the effective level of the tariff was reduced by the provision granting 10 per cent discounts on duties over 15 per cent when goods were brought without transshipment from any country entitled to the preferential rates. In 1928, after the advisory board on tariff and taxation investigated

[28] Based on information obtained from Automobile Manufacturers Association.

[29] Canadian Cottons, Ltd., Montreal Cotton Ltd., and Dominion Textile Ltd., were the principal firms.

[30] *Report of the Royal Commission on the Textile Industry,* pp. 44–45.

the industry, decreases were made in all three columns of the tariff. Two and a half per cent was the commonest reduction. These changes were, of course, of only transient importance since they were soon followed by the basic change in the trend of the tariff in 1930.

The tariff reductions of 1922 caused little interruption in the textile industry's physical growth. By 1925 Canada was importing about 115 million pounds of raw cotton per year. Specialty plants developed and branches of American firms were established, one in Drummondsville in 1921, another at St. Hyacinthe in 1926. Except for the establishment of a silk fabric industry in 1922 and a rayon industry in 1924, the other divisions of the textile industry marked time in the 1920's.[31] Woolens and worsted products fell on hard times as the number of mills declined from 66 in 1920 to 46 in 1930 despite the expansion of the consumer demand for higher class clothing in the country as a whole. Profits, while subject to considerable variations, were quite good during the period. Wages, while considerably below the standards for labour in general in Canada, rose 2 to 3 cents an hour between 1926 and 1930 in cottons, silks, and knit goods, and lesser amounts in woolens, hosiery, and carpet manufacture.

The textile industry did not undergo cyclical fluctuations in the post-war period comparable to those in other major industries, for it was in an advantageous position with respect to raw materials and labour. Price reductions in raw materials, particularly raw cotton, were drastic, and labour was not in a strong bargaining position in the principal centres of textile manufacturing.[32] The

[31] Heretofore Canada has produced only silk thread. The tariff on silk fabrics was increased from 27½ per cent to 32½ per cent in 1928. Rayon production was started by the Courtauld Company in Cornwall in 1924. Canadian Celanese began production in 1927. The production of artificial silk increased from 507,528 pounds in 1925 to 13,622,629 pounds in 1936. Imports remained stable at 1,000,000 to 2,000,000 pounds per year. The tariff of 1923 provided for duties of 12½–17½–22½ per cent for yarns and 17½–32½–35 per cent for fabrics. Courtauld and Canadian Celanese are branches of British and American companies.

[32] Raw cotton fell in price from 44.34¢ a pound in 1920 to 17.18¢ in 1921. In 1928 it was 21.44¢ and in 1932 8.54¢. Raw wool fell in price over 70% between 1928 and 1932. See *Recent Economic Tendencies*, Table 22.

general amplitude of cyclical changes may be ascertained from crude employment data, although some adjustments for improvements in technical efficiency are necessary. For all textile industries a low of 86.5 per cent of the 1926 level of employment was reached in 1921 and a high of 107.2 in 1929.[33] Changes from year to year were remarkably small even after 1929.

The tariff changes in the textile schedules made in September 1930 supplemented existing ad valorem rates with specific duties and, in some instances, raised existing ad valorem rates as well. The textile tariff, over all, underwent its most substantial increase since 1879. By combining groups of items formerly differentiated, the 1930 changes simplified the complex textile schedule. In some cases the British margin of preference was widened, but at much higher levels than before. In a report made in 1935 the tariff commission estimated the effects of the changes of 1930 on the average ad valorem rates on textile manufactures.[34] On grey cotton the preferential rate increased from 12.5 per cent in 1929 to 22.9 per cent in 1931. Printed cotton increased from 18 per cent in 1929 to 23.9 per cent in 1932, and artificial silk from 17.8 per cent to 43.2 per cent over the same period. The motive for the adjustments of 1930 and 1931 was to increase the number of manufacturing processes carried on in Canada, consequently protection was increased on the earlier and more fundamental stages in the production process.

Formal increases in rates were only a part of the enhanced protection received by the textile industry between 1930 and 1935. The period was notable for currency devaluation, extra dumping duties, and high and arbitrary valuations for duty imposed by the customs department. Inasmuch as these increased the amount of

[33] *Recent Economic Tendencies in Canada,* Table 13.

[34] Tariff Commission, reference 83, January 17, 1935. Average preferential rates on cotton yarn increased from 11.5 per cent in 1929 to 15.8 per cent in 1932; on bleached cotton from 15 per cent to 22.8 per cent; on dyed yarn from 18 per cent to 23.9 per cent. These duties are exclusive of import excise which amounted to 1 per cent, June 2, 1931 to April 6, 1932, 3 per cent April 7, 1932 to April 1934, and 1½ per cent thereafter till their removal as far as British countries were concerned on March 22, 1935.

duty paid, they are reflected in the ad valorem equivalents given above. The nature and effect of the multiplicity of duties under the general tariff is brought out clearly in the charges imposed on grey goods imported from the United States in May 1932.[35] Grey sheeting having an invoice value of $51.66 bore at that time a total duty of $49.08. This consisted of the regular ad valorem duty of 25 per cent on a value of $67.02 as determined by the minister of customs, a specific duty of $14.03, an import excise tax of $2.93, and a special or dumping duty of $15.36. The last was the difference between the invoice price of $51.66 and the valuation for duty of $67.02. Without the special valuation for duty, the complementary dumping duty, and the discriminatory import excise tax the duty would have amounted to about $28.69. About a 71 per cent increase in duties resulted from the so-called administrative features of the act and the special excise tax.[36]

The trade agreements of the 1930's brought some scaling down of the level of protection that had been given the industry in 1930 and 1931. Under the United Kingdom Agreement of 1932 the specific duties on the chief cotton items were reduced to about one third of former levels. Fine quality cotton yarns were made free if entitled to the British preference. Specific duties on woolens were lowered by 25 per cent. In April 1934, after an investigation by the tariff commission, the minimum duty on artificial silk was reduced from 28 cents to 20 cents per pound under the British preference. The United States was, of course, given the advantages of the intermediate tariff after January 1, 1936, and the harshness of the valuation procedure was tempered as a result of the first trade agreement with the United States. British rates were again lowered after a tariff commission hearing of 1936.

[35] *Report of the Royal Commission on the Textile Industry*, p. 79.

[36] The valuation clause of the Customs Act under which the special duties were applied was not applicable to Britain after 1933. Consequently their discriminatory effect was increased as far as the United States was concerned. Similar percentage increases in normal duties on other commodities amounted to 51 per cent on flannelette from the United States and 59 per cent on knitted wool from that country. That British exporters were hit at least equally hard is made clear in the *Report of the Royal Commission on the Textile Industry.*

Specific duties were eliminated from the compound levies and the ad valorem portion of the duties or a little higher assessments were retained on cotton yarn, the principal cotton fabrics, and artificial silks. Reductions of 2½ to 5 per cent on the British list were made in 1937, consequent upon the Canada–United Kingdom Agreement of that year. Despite these reductions it is apparent that the textile industry was among the major beneficiaries of the high tariff policy of the 1930's.

How did the industry as a whole fare under this protection? Though raw cotton imports fell from about 139 million pounds in 1929 to 93 million in 1932, textile production in 1933 was still at 96.1 per cent of 1926 levels. Thread, yarn, cloth, hosiery, and knit goods gave evidence of exceptional stability. Employment figures show that the industry weathered the depression much better than Canadian industries in general. In cotton yarn and cloth, employment at the low point of the depression in 1933 had fallen only 23 per cent. Despite this comparatively good showing the cotton division was the hardest hit in the industry. Woolen yarn and cloth production fell behind the 1929 level for only one year, and then by 8.8 per cent. When the substantial specific duties added in 1930 became effective, the woolens industry began a steady rise in employment to a level, in 1936, of 58 per cent above 1929. This industry had been languishing in the 1920's as has been noted above. Knit goods and hosiery, more prosperous than woolens in good times, by 1933 reached a low in employment of 88.2 per cent of 1929 levels. Silk and artificial silk producers apparently were immune to depression and more than doubled their scale of employment between 1929 and 1934.

The share of domestic industry in the home market for nearly all textile products expanded rapidly after 1930. This trend was particularly evident in wool fabrics, silks, artificial silks, and hosiery. Cotton alone, despite its protected position, showed the opposite tendency. Although Canada's production of grey cotton fabrics increased from 53.7 to 74.3 per cent of domestic consumption between 1929 and 1933, the share of the domestic industry in the bleached goods field declined 5 per cent by 1933. In col-

oured cottons home industry enjoyed 67.2 per cent of the market in 1931 and 80 per cent in 1933.[37] Cotton textiles as a whole increased their share of the Canadian market from 66.8 per cent in 1929 to 76.9 per cent in 1933. Perhaps an important factor in the relatively poor showing of the cotton industry as compared with silk and wool was the fact that individual firms in the cotton industry were larger and the market was dominated by comparatively few producers. The smaller size of firms in other lines made for greater ease of expansion and encouraged new firms to establish themselves behind the tariff wall. The only really important export of the textile industry after 1930 was silk hosiery, the producers of which were practically supreme in the home market as well.

Price levels in the textile industry exhibited considerable stability, particularly when compared with price changes in the raw materials from which its major products are derived. Raw cotton, raw wool, and raw silk prices fell by 57.3, 48.6, and 64.6 per cent respectively between 1929 and 1932. Cotton fabrics prices fell a maximum of 24.9 per cent, wool cloth 26.9 per cent, and silk fabrics 43.8 per cent over this period. The more drastic decline of the latter is, of course, related to the rise of the rayon industry. Rayon viscose yarn steadily declined in price throughout the depression, reaching a low of 54.3 per cent of 1929 levels by April 1937. This in spite of the fact that it had ample tariff protection and that competition in Canada is limited to two companies.[38] Silk hosiery, which managed to dominate the domestic market almost entirely, fell in price about 33.3 per cent during the depression period.[39]

The report of the Royal Commission on the Textile Industry

[37] The year 1933 rather than 1931 or 1932 was selected in order to give the tariff changes of 1930 and the changes in the preferences in 1932 opportunity to show their effects.

[38] The Canadian rayon market is not subject to much foreign competition except in acetate yarns other than celanese because the Canadian producers are subsidiaries of members of the international cartel which operates in the world market for this product. See *Tariff Commission.* Reference 83, 1935.

[39] *Report of the Royal Commission on the Textile Industry,* p. 100.

made a significant comparison of price and price indexes from 1929 to 1935 in relation to prices prevailing in the United Kingdom and the United States for similar products. The commission concluded: ". . . throughout the depression Canadian prices were maintained at a higher level than those that would have prevailed had imports been free to enter under the tariff duties prevailing prior to September, 1930, and without the restrictive effects of currency valuations and special customs appraisals. . . . the effects of customs duties and appraisals may be measured by saying that, without these changes, prices of textile products in Canada would probably have fallen from 40 to 50 per cent by 1932 from the 1929 level, instead of only 25 to 30 per cent, on the whole." [40]

Regarding profits in the industry the commission stated: "On the whole the record shows that the textile industry in Canada has fared well. This industry came through the depression period in a manner which many other industries might envy." High tariffs had increased its share of the home market, and low prices of raw materials and labour made it unnecessary for the industry to share with either the primary producer or labour the fruits of its protected position.

The application of protective duties and administrative protectionism to the principal secondary manufactures discussed in this chapter must be judged by standards different from those used in evaluating the results of the National Policy in the 1880's. In the post-war decade emphasis was placed less on developing new industries than on safeguarding capital investment in going concerns and encouraging vertical expansion of the manufacturing processes. During the period of relatively full employment and high national income in the 1920's care was taken to remove protective duties not essential for maintaining the profitable operation of existing concerns selling their products to agriculture and the other export industries. This policy met with a good measure of success, buttressed as it was by capital imports and profitable export markets.

[40] *Report of the Royal Commission on the Textile Industry*, p. 104.

When depression invaded Canada from abroad in 1930, higher tariffs were the first line of defense resorted to against falling prices, business losses, and unemployment. The success or failure of this policy depended ultimately upon whether sufficient income-creating investment could be stimulated in iron and steel, farm machinery, automobile production, and other industries to offset the depressing effect of rigid or increasing money costs on the depression-vulnerable export industries and of rigid prices on consumer expenditures. Judged by this criterion the policy was unsuccessful as far as the industries surveyed above were concerned. They did not expand investment but, with the exception of textiles, contracted production and employment by more than the reduction in total national income. The increased share that they were able to capture of the domestic market, shrunken almost to the vanishing point as far as durable consumers goods and capital equipment were concerned, was insufficient to support profitable production. Only in the fields of semi and non-durable consumer goods, as represented by the textile industry, might a different verdict be obtained. Production in that industry was well maintained and some new investment was made.

# CHAPTER XVI

## CONCLUSION

THIS CONCLUDING chapter is, in the main, a summary of some of the principal economic and political results of Canadian tariff policy as it developed after 1867, for the lessons of this period best point the way to future policy. The tariff-making function was entrusted to the Dominion in 1867 primarily to provide the federal government with the most important source of public revenue then available and to insure uniform rates of duty on goods entering the various parts of the country. Elimination of trade restrictions between the several provinces was also accomplished; this was an end long sought by powerful advocates of economic and political unity, including Durham, Sydenham, and before them the colonial merchants from the earliest decades of British rule in Canada. Control of the customs was, of course, indispensable to the federal government if a national economy was to be superimposed on the colonial economies which had already adopted policies aimed at regional self-sufficiency, the precept and example of the imperial government notwithstanding.

With this authority, however, went responsibility for deciding between an active or a passive role for the tariff. Should its function be fiscal only, as maritime economic interests seemed to require and as British economic thought insisted, or should control rather than merely taxation of import trade be its primary object? After twelve years of hesitation on the part of politician and public alike, the latter point of view prevailed. The historic decision in favour of protection, taken in 1878, was reaffirmed in subsequent tariff changes, particularly those of 1897, 1907, and 1930. Both the domestic economy and politico-economic relations with the Empire and the United States have felt the consequences of this decision. Some of these consequences, referred to in previous chapters, will be reviewed here.

We turn first, however, to one aspect of protectionism not dealt with as such heretofore in this study, namely, the regional incidence of the tariff. In a federal system the regional incidence and benefits of the tariff are questions fundamental to the preservation of national unity. In Canada studies supplementary to many Royal Commission Reports have emphasized the inequality with which the burden of the tariff falls upon the different provinces. The case of a province dependent upon a so-called exposed industry was well stated in the submission of the province of Saskatchewan to the Royal Commission on Dominion-Provincial Relations:

> While the tariff has given little support to the few small manufacturing industries which Saskatchewan does possess, it has imposed a heavy annual charge or tax upon the one great unsheltered export industry of the province. The Saskatchewan wheat growers have been compelled to purchase goods in an expensive protected market with the proceeds of exports sold in the competitive markets of the world.[1]

In depression the difficulties of primary producers are intensified, the report continues:

> For the presence and the operation of a high protective tariff make the possibility of adjusting other prices in the Canadian economy to meet the sharp decline in the cash incomes of primary producers extremely remote.

Inasmuch as primary production is regionally concentrated in Canada, the inequities of the tariff are intensified. A much larger percentage of the production of Ontario and Quebec is sold on the protected markets of Canada than that of the western provinces, though the difference in this respect between the central and Maritime groups is not very striking, as Table 37 reveals.

[1] *Province of Saskatchewan,* A Submission by the Government of Saskatchewan to the Royal Commission on Dominion-Provincial Relations (Canada, 1937), Prepared under the direction of Hon. J. C. Davis, K. C., Attorney-General of Saskatchewan (Regina: King's Printer, 1937), p. 228.

TABLE 37

DISTRIBUTION BY PROVINCES OF PRODUCTION VALUES IN 1931[a]

| | Sold under Protected Conditions % | Sold on an Exposed Market % |
|---|---|---|
| Prince Edward Island | 79.41 | 20.59 |
| Ontario | 77.58 | 22.42 |
| Quebec | 76.03 | 23.97 |
| Manitoba | 73.74 | 26.26 |
| Nova Scotia | 72.44 | 27.56 |
| New Brunswick | 63.98 | 36.02 |
| Alberta | 61.80 | 38.20 |
| British Columbia | 54.37 | 45.63 |
| Saskatchewan | 50.96 | 49.04 |

[a] *British Columbia in the Canadian Federation*, 1938, A Submission Presented to the Royal Commission on Dominion-Provincial Relations by the Government of the Province of British Columbia (Victoria, B. C. King's Printer, 1938), Table 167.

It must also be borne in mind that substantial compensations have been given to the unprotected industries of the western provinces by way of railways and provincial grants made out of federal funds largely derived from customs duties. The most thorough study which has been made of the relative costs and benefits derived by the various provinces from the protective tariff, that of the late Dr. Norman Rogers, revealed that only Ontario and Quebec derive a net gain from the tariff.[2] These two provinces were gainers to the extent of $15.15 and $11.03 per capita annually for the period of the Rogers study. The other provinces had net losses ranging from $11.67 in the case of Nova Scotia to over $28 for Saskatchewan. Statistical studies of this kind are necessarily incomplete, and indirect benefits, such as those derived from the expenditure of federal revenues realized from duties, were not taken into account. The point should also be made that retarded adjustment of cost-price relationships in agriculture, fishing, and the extractive industries, which aggravated the uneven incidence of the tariff, was common to the United States as well as Canada in the interbellum period, though probably to a lesser degree.

[2] *Nova Scotia*, Provincial Economic Inquiry (Halifax: King's Printer, 1934).

Since we do not propose here to attempt a conclusive answer to the question of how the direct burdens and benefits of the tariff have been distributed between the provinces and regions of Canada, a question that was only in part answered in the Report of the Royal Commission on Dominion-Provincial Relations, only the following statement is made. The view commonly held that individual incomes have been drastically reduced and standards of living lowered in eastern and western Canada because of the tariff is probably unfounded. The tariff, in its protective aspects, has had two important consequences to the economies of the Maritime and western provinces. By increasing the costs of certain producers' equipment it has limited the exploitation of marginal lands, mines, forests, and fisheries. The result has been to reduce gross income and perhaps also to limit the population that the primary industries of these provinces can support. Secondly, the tariff has reduced the real incomes of the people of those provinces during periods of drastic price collapse in export markets, inasmuch as it has contributed to inflexibility of durable consumers goods prices. The terms of exchange have undoubtedly been weighted in favour of central Canada by the tariff, more so in depression than in prosperity, but the quantitative extent of this disability, we believe, has not been as great as frequently assumed. The subject, however, awaits more specialized study.

We now turn to the effects of the tariff on the structure of Canadian manufacturing industries. The tariff has been the principal factor in the establishment of many new firms, largely of the assembly type, in Ontario and Quebec, close to the principal markets of the country. In recent decades most of these firms have been producers of durable consumers goods. The manufacturing processes requiring heavier investments of capital and providing more employment of labour have been slow in coming to Canada. This has been owing to the limited size of the Canadian market, the United States tariff which has made it difficult to sell surplus manufactured goods in that country, higher costs of capital equipment in Canada, and the economies to be realized through mass production of parts in Britain and the United States.

The automobile, radio, and refrigerator companies are cases in point. A tariff applied with greater selectivity and with more appreciation of the potentialities of self-sustaining industry in Canada would have made for a more firmly established industrial economy.

A sounder policy would have denied tariff protection to firms dependent entirely on imported parts, but would have provided more substantial encouragement to standardized parts manufacturers in the low-priced automobile, electrical goods, and farm machinery fields. The employment and investment thus stimulated would, it is believed, have more than offset losses due to the elimination of certain firms such as producers of high-priced automobiles and household appliances. Without the larger market that only such well-selected producers can hope to command in Canada, self-sustaining industry capable of competition with foreign producers without tariff protection is not to be expected. In summary, it is believed that tariff policy should aim at the establishment of a limited number of firms which are industrially integrated with domestic parts manufacturers and primary producers and which can command a substantial volume of sales even in a relatively small market. The alternative, protection to all and sundry finished product manufacturers willing to set up assembly operations, results in less employment, higher consumer prices, and a vulnerable industrial structure. Selective protection would also not be subject to the charge of restricting competitive market forces since the bargaining power of the finished goods producers would be sufficient to maintain prices close to costs among parts manufacturers, and since competition from foreign producers of, for example, higher priced automobiles, would protect the consumer against exploitation by manufacturers of protected lines.

The protective tariff, indeed, has been closely linked in the minds of many of its critics with restrictions on freedom of competition, and in some cases with clearly monopolistic pricing practices engaged in by single firms or combinations of firms safely ensconced behind tariff barriers. The government of Canada has

taken cognizance of this linking of the tariff with combinations in restraint of trade by vesting in the courts and, in 1935, in the tariff commission, responsibility for suspending tariff protection if combination or monopolistic pricing was found to exist in protected industries. The relation of the tariff to price maintenance agreements and the like, however, has seldom been clearly established in Canada. Perhaps this has been attributable to the propensity of higher tariffs to call into existence new firms, usually branches of United States parents, established to exploit Canadian and Empire markets from behind the tariff wall. The presence of these new firms has given the appearance, at least, of intensified competition until the weaker establishments have fallen by the wayside or have been absorbed into larger combinations. This was a phenomenon of the 1890's, the early 1920's, and, there is evidence to believe, of the later 1930's. That the tariff has established narrow limits to the size of the market available to Canadian buyers of many manufactured lines is undisputed. That thus limiting the size of the market has made for imperfect competition if not collusive pricing and price maintenance agreements among domestic producers seems altogether probable, though the evidence of price control through formal agreements is not strong.

Protected industries in which combinations have reduced competition are cotton textiles, sugar refining, and perhaps farm machinery. In general, however, the monopolies, such as aluminum, nickel, and chemicals, are not based on the tariff, and have international ramifications so that competition would not be created simply by the removal of any duties that now exist. As Dr. Reynolds has observed: "Where price control has been established in Canada but international ties are weak, as in cement, sugar, hardware, farm implements and most iron and steel products, tariff reductions might be expected to weaken the effectiveness of domestic price control."[3] But where Canadian and foreign firms operate in close agreement, this result would not follow. One of the outstanding combinations in Canadian history, that of the

[3] Lloyd G. Reynolds, *The Control of Competition in Canada* (Cambridge: Harvard University Press, 1940), p. 198.

coal dealers of Ontario cities in the 1880's, was but an extension of a United States combination and was unrelated to the tariff. Many recent combinations have been similar in character.

Some observations will now be made on the influence of protection on the cyclical and secular patterns of the economy. In some countries, notably Australia, one important argument for protection has been its alleged capacity to make for greater national self-sufficiency and, therefore, for less dependence on erratic world market prices for raw materials. As a young country with a large portion of her area devoted to one-crop agriculture dependent on export trade, Canada has been most vulnerable to crises of external origin. Her backlog of manufacturing industry in the central and Maritime provinces has mitigated the severity of these shocks. However, her experiments with the tariff, during the maturer years of her industrial history at least, do not inspire confidence in that instrument as a device either for securing crisis-free industry or for stimulating new investment and employment opportunities. Such industries as steel, automobiles, and farm machinery have not aided in preserving full employment or opening new channels for investment in depression periods although the non-durable consumer goods industries, such as textiles, have been relatively stable. Protected capital and durable consumer goods industries have curtailed production and maintained prices to a much greater degree than lay within the power of more exposed industries. In 1930 and thereafter a forthright policy of using the tariff as a counter-depression measure was embarked upon without much success. A more self-sufficient economy might, of course, experience different results, but it is doubtful whether a condition of economic stability could be obtained through protection without the severest political and social repercussions. A policy of selective protection as outlined above would accomplish more in this direction, particularly if applied to commodities with low elasticities of consumption. However, a public policy committed to the maintenance of minimum levels of investment through public works or other means is a more logical and certain method of achieving

stability without creating the long-run burdens of protecting weak and ill-adapted industries.

As for the more fundamental effects of protection on the secular trend of national income, it is clear that, up to 1939, the exploitation of virgin natural resources was not much impeded by higher costs attributable to the tariff, although these costs were a limiting factor in the development of certain marginal areas. It is not to be construed, however, that the output of all protection-supported industries has been net gain. Offsets are the potential production of many secondary industries, such as base metal fabricators, non-metallic mineral refiners, and construction materials producers, which would probably have been established in Canada if equipment costs had not been increased by the tariff. It must also be recalled that free access to the United States and other foreign markets for the secondary products of Canada's extractive and agricultural industries could probably have been won on several occasions, notably 1911, if she had been prepared to sacrifice protection to some of her high-cost capital and consumer goods industries. This study has not been sufficiently comprehensive in its quantitative economic analysis to specify the tariff's relation to national income in all its aspects. It is suggested, however, that the effect of protection on secular trend has been less than commonly believed to be. On the other hand, it is held that if Canada had kept her tariffs at revenue levels without receiving reciprocal concessions in foreign markets, the results would not have been advantageous as compared with the actual levels of national income enjoyed.

We now turn to a review of the politico-economic effects of tariff policy on Canada's principal external relations. Owing to the overshadowing importance of Canadian commerce with the United States during the colonial and post-Confederation periods, political relations between the two countries have frequently reacted to changes in the tariff. Entrance into the colonial markets, particularly of the Maritime colonies, was a cause of protracted dispute between the Empire and the United States in the 1820's. Increases in the Canadian duties in the later 1850's heightened

United States feelings against Canada and Britain and hastened the end of reciprocity. The abortive commercial union movement of the 1880's and the reciprocity negotiations of 1911 intensified political feelings for a time within and between the two countries. On the other hand, the Canadian-American agreement of 1935 went far to smooth the ruffled feelings induced by the Hawley-Smoot tariff and the Ottawa agreements. That no permanent ill effects to Canadian-American political relations have resulted from antagonistic tariff policies is due to over-riding security motivation on the part of Canada and security as well as economic considerations on the part of the United States. In general, the tariff has been a consideration of secondary importance in Canadian–United States political relations as compared with boundary disputes, the fisheries question, and other more spectacular if ephemeral matters.

In the realm of political-economic relations within the Empire, Canadian aspirations first for customs-making autonomy and later for tariff protection have had some obvious effects. Tariff autonomy, in effect won by Galt in 1859 though nominally bestowed by Britain thirteen years earlier, was the economic counterpart of the privilege of responsible government attained in 1849. The use of this tariff autonomy has played a secondary but important part in changing the status of the Dominions in the British Commonwealth. Dissatisfaction with British representation in commercial relations with foreign countries led to independent diplomatic representation in foreign capitals for the Dominions. The alleged failure of the British commissioners to obtain trading advantages for Canada at the Washington conference of 1871 was the beginning of this development. Canada's successful efforts to free herself from the restrictions of British-made commercial treaties, particularly after 1897, gave added weight to the voices of the Dominions at subsequent imperial conferences. Finally, the entire growth of protectionism in Canada, directed at Empire as well as foreign products, has made for a relationship of arms-length political as well as economic bargaining between Canada and the United Kingdom.

The future of Canadian tariff policy does not lie within the province of this volume. The period after World War II will almost certainly give rise to new internal as well as external problems for Canada that will require a review, if not a remodelling of her foreign commercial policy. Developments during the war itself have perhaps indicated a trend towards reduced barriers. The outbreak of the second world war saw Canada placed in the position of having to reduce imports from the United States, particularly of consumer goods, if she was to avoid increased borrowings from that country. Her principal sales were being made to Great Britain and were not productive of sufficient dollar exchange to pay for necessary war imports from the United States. The Canadian tariff on normal articles of import from the United States was, therefore, raised, and the British preference was increased. Subsequent events have, however, made a continuance of this policy unnecessary. Since the Hyde Park agreement of April 1941 a very real integration of the Canadian and American industrial systems has occurred with the objective of maximum output of war matériel in minimum time. Where the tariff was found to be impeding this objective it has been removed on materials needed in Canadian war production. As in no previous period in the tariff history of Canada, the prospect for the solution of the fundamental economic problems of the Dominion without the aid of substantial barriers to the free flow of international trade appears to be economically and politically possible. Certainly the new creditor status of the Dominion, particularly in relation to Great Britain, makes such a development essential for international stability. The future of tariff policy, however, will largely be conditioned by post-war developments of the most fundamental character. If relatively full employment is maintained after the war both in Canada and abroad, it may well be that exclusionist sentiment will not arise.

Many unanswered questions come to mind at the end of this study. What has been the effect of tariff-induced investment on national income during periods of depression? To what extent has the tariff retarded full realization of the income producing poten-

tial of marginal resources? Can a more definitive answer be given to the question of regional incidence of higher costs resulting from protection? And, of perhaps greatest importance, what means of payment can Canada best accept for her expanded export trade in the war and post-war years ahead? The ending of the war may not only provide scholars with the time but also with the data for the study of these questions.

# INDEX